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Conspectus of the

Report of the Auditor General of Canada to the House of Commons

Fiscal Year Ended
March 31, 1979



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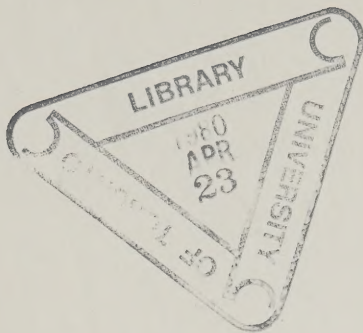


Conspectus of the

*Canada Auditor General's
Office*

Report of the
Auditor General of Canada
to the House of Commons

Fiscal Year Ended
March 31, 1979



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AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

Ottawa, Ontario
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To the Honourable the Members of the House of Commons:

My Report to the House of Commons for the fiscal year ended March 31, 1979, has been tabled by the Speaker of the House. The Report is published in English and French.

Because Members of Parliament have heavy demands on their time, we have prepared this Conspectus to summarize the Report's contents and to help you identify sections in which you may be particularly interested. References to the various chapters of the Report appear beside the headings in the Conspectus.

Appendix A of this Conspectus summarizes basic criteria for parliamentarians to use in their review of the Government's management processes; we used these criteria in our comprehensive audits. Appendix B contains the full chapter-by-chapter table of contents of the Report.

The Conspectus has been prepared primarily for the use of Members of Parliament, but I hope that it will also serve as a convenient guide to the Report for others in the public and private sectors who may find it of interest.


J.J. Macdonell

December, 1979

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Part 1

GOVERNMENT OF CANADA

MATTERS OF SPECIAL IMPORTANCE AND INTEREST

Introduction

In the first Chapter of my first annual Report to the House of Commons in the 31st Parliament and my final report as Auditor General, I pursue the following themes:

- the current status of the key government-wide recommendations that I made to Parliament in my last four annual reports (1975-78);
- the key issues that must be addressed if Parliament -- and the Government itself -- are to have the necessary assurance that effective control of the public purse has been restored and that public funds and the human and physical resources of government are being managed well with due regard to economy, efficiency and effectiveness;
- the key elements of an overall action plan for the Government of Canada to ensure that a fully satisfactory government-wide system of financial management, control and accountability is being implemented and will be operating effectively within a reasonable period of time;
- the sort of human and financial resources needed to give such a plan the priority it deserves and to prosecute it with vigour; and
- how the Office of the Auditor General can give maximum service and assistance to Parliament in the 1980s and, through Parliament, to the taxpayers.

These themes recur throughout Chapter 1 and Part 1 of the Report. In Chapter 1, I describe significant actions taken during the 30th Parliament to restore parliamentary control over the public purse. I also report on the progress -- or in many cases lack of it -- in implementing key recommendations for improving financial information for Parliament, for strengthening departmental financial administration and internal auditing functions, and for ensuring the accountability of Crown corporations. I discuss proposals for remedying existing deficiencies in *general management within the Public Service*. Based on studies my Office conducted during the last two years, I suggest a carefully planned program of productivity improvement to meet at least in part the current pressing need for restraint in government spending. I believe that my previous key recommendations not yet implemented, considered together with new proposals for improvements in the management and productivity of the Public Service, constitute a plan for the actions needed to assure Canadians that the 31st Parliament has regained control of public spending and that the Government has firmly grasped responsibility for the economical, efficient and effective management of public funds and of the human and physical resources engaged in the Public Service. The new proposals include some important recommendations of the Royal Commission on

Financial Management and Accountability (Lambert Commission) and of the Special Committee on the Review of Personnel Management and the Merit Principle (D'Avignon Committee). I conclude with my views on how the Office can best serve Parliament and with a description of some major new initiatives in which we are engaged.

Subsequent chapters in Part 1 of the Report describe the continuing development of the comprehensive auditing approach I initiated last year (Chapter 2) and present an inventory for the new Parliament of the status of the key requirements for good financial management, control and reporting emerging from the four major government-wide studies conducted by my Office during the 30th Parliament (Chapters 3 to 7). Chapter 8 provides a status report on financial control, reporting and audit matters affecting Crown corporations, and is intended to assist parliamentarians in reviewing legislation announced in the Speech from the Throne on October 9, 1979. Chapters 9 and 10 present our findings and recommendations arising from two new government-wide studies conducted last year, a study of Payroll Costs Management and a study of the Management of Telecommunications. Chapters 12 to 17 of Part 2 present the findings and recommendations resulting from comprehensive audits conducted during the last year in the following departments and agencies:

- Canadian International Development Agency
- Canadian Transport Commission
- Department of the Environment
- Department of National Revenue - Customs and Excise
- Department of Public Works
- Department of Supply and Services - Services Administration

This brings to 12 the number of departmental comprehensive audits reported to Parliament by my Office during the last two years.

Government-Wide Studies by the Audit Office (1974-78)

In each of the years from 1975 through 1978, I reported to Parliament on the results of a major government-wide study. These four reports set out more than 100 recommendations of a government-wide nature and many hundreds of recommendations to correct identified deficiencies at the departmental and agency level. Each study covered a particular aspect of the financial management and control of public funds and resources and the relevant reporting systems on government expenditures through the various levels of management, to the Government, and ultimately to Parliament itself.

These four studies were carried out by task forces composed of senior professionals from my Office and partners and managers of leading national firms of chartered accountants and management consultants, either loaned to my Office under the Executive Interchange Program of the Public Service Commission or under short-term professional service contracts. Each study was conducted in depth across the whole range of government involving more than 50 individual departments and agencies. In one instance (the Financial Management and Control Study), the examinations also encompassed the 27 Crown corporations

audited by my Office. Each study involved upwards of 100,000 professional hours, comparing in scope and magnitude to studies like those conducted by the Royal Commission on Government Organization -- 1960-63 (Glassco Commission) and the Lambert Commission -- 1976-79.

My senior officers and I were deeply involved in the planning, direction, evaluation of results and reporting of each of the studies. I was fortunate in obtaining the services under the Executive Interchange Program of three competent and experienced leaders as Directors General of the following three studies:

<u>Study</u>	<u>Period</u>	<u>Director General</u>
Financial Management and Control Study (FMCS)	1974-76	Robert B. Dale-Harris, F.C.A. Partner, Coopers & Lybrand
Computer and Information Systems Evaluation (CAISE)	1976-77	Ruben J. Rosen, C.A. Partner, Touche Ross & Co.
Study of Procedures in Cost Effectiveness (SPICE)	1976-78	Kenneth G. Belbeck, C.M.C. President, Stevenson & Kellogg

The fourth study, on Financial Information for Parliament, has been conducted as an integral element of the other three from 1974 to 1976 and separately during 1977 and 1978. Its leader has been N. Glenn Ross, F.C.A., a partner of Coopers & Lybrand and an acknowledged expert on government accounting. Mr. Ross, who has served as my Special Advisor since 1974, headed the Study of the Accounts of Canada for the Treasury Board in 1972-73, and serves as Chairman of the Study of Financial Reporting by Governments of the Canadian Institute of Chartered Accountants and as Chairman of my Independent Advisory Committee on Government Accounting and Auditing Standards.

Also, since 1974 we conducted a number of special audits and inquiries of a government-wide nature and reported them to Parliament. Each identified significant weaknesses in controls and procedures and made recommendations to correct them. These special audits and inquiries were:

●	Receipt and Deposit of Public Money	1976
●	Office Accommodation	1976
●	Travel and Relocation Expenses	1976-77
●	Internal Controls in Payroll Systems	1976
●	Manufacturers' Sales Tax	1976
●	Grants and Contributions	1976-77
●	Use of Statistical Data in Determining Certain Government Expenditures	1977
●	Charging for Accommodation Services	1978
●	Contracting Procedures	1978
●	Internal Auditing	1978
●	Payroll Costs Management	1979
●	Management of Telecommunications	1979

It is not easy to select particularly important or "key" recommendations from among the several hundred significant proposals that resulted from our massive five-year investigation of financial management, control and reporting practices across government. But careful evaluation eventually suggests that some are so fundamental in character that their successful implementation would virtually guarantee effective control and management of the public purse by the Government and Parliament.

Inaction or inadequate action on the key recommendations arising from our government-wide studies will virtually guarantee that inadequate control of the public purse will continue, as will uneconomical, inefficient and ineffective management of public funds and of the human and physical resources engaged in the Public Service.

The Need for an Integrated Action Plan for Improved General Management

To put into proper perspective the sort of action program I consider essential, it is not enough to consider only the key recommendations of the studies conducted by my Office. Consideration must also be given to recommendations contained in the recently published reports of the Lambert Commission and of the D'Avignon Committee. It is remarkable -- and fortunate -- that the completion by my Office of the four major studies and the 11 smaller examinations, each of an important government-wide issue, and the penetrating, far-reaching studies of the Lambert Commission and the D'Avignon Committee, coincide with the start of a new Parliament and a new Government.

Never before has there been such an evaluation of the quality of Federal Government administration and such a detailed identification of essential improvements based on intensive and comprehensive studies by, and from the perspective of, three independently constituted authoritative sources, each with a separate but related mandate.

The time is right -- and will never be better -- to develop an integrated overall action plan to ensure effective financial, personnel and general management of Canada's publicly-owned funds and resources and -- most important -- to reintroduce inspired leadership and motivation of the human resources dedicated to the service of Canada as represented by its Public Service. This is the challenge -- and the opportunity -- for the new Government and the new Parliament.

Actions Taken During the 30th Parliament

What key recommendations should form part of the *integrated action plan for improved general management* which I consider so essential at this time? To begin with, actions already taken by the previous Government and the 30th Parliament constitute a good foundation for what still has to be done.

Royal Commission on Financial Management and Accountability

The appointment of the Commission under the chairmanship of Mr. Allen T. Lambert was announced on November 22, 1976, the same day as the tabling of my annual Report in which I expressed my concern that Parliament -- and indeed the Government -- had lost or was close to losing effective control of the public purse. The Lambert Commission report was made public in March 1979 and contains 165 recommendations, a number of which are fundamental in character and of far-reaching significance. All 165 recommendations are reproduced in Appendix C of the Report. Taken in conjunction with the key recommendations of our own major studies, many of which they complement, the result provides a comprehensive plan for implementing an effective system of financial management, control and accountability.

Special Committee on the Review of Personnel Management and the Merit Principle

In February 1977, acting on a recommendation of the Public Service Commission, the Government announced the establishment of a Special Committee composed of a management and a labour representative under the chairmanship of Mr. Guy D'Avignon to review personnel management and the merit principle in the Public Service. The D'Avignon Committee presented a working paper in November 1978 and its final report was tabled in the House of Commons on October 15, 1979. It contains 179 recommendations, which support the necessity for strong direction from the Government and the central agencies and stress the need for accountability in the personnel management field to achieve a more effective and efficient Public Service.

In essence, the D'Avignon Committee reinforces the conclusions of the Lambert Commission that major reforms are required in the Public Service and that drastic measures have to be taken to provide the taxpayers with a Public Service more in keeping with their needs in the 1980s.

Appointment of the Comptroller General of Canada

The establishment of this position was the first of the three key recommendations resulting from the Financial Management and Control Study contained in my 1976 annual Report. On April 25, 1977, the Government announced the acceptance of this recommendation.

The second recommendation was to appoint as first Comptroller General the best qualified person that could be found in Canada. In February 1978, the Government announced the appointment of Harry G. Rogers, an experienced financial executive with impressive credentials.

From the date of his appointment, Mr. Rogers has provided strong leadership for the financial management community across Government. In the fall of 1978, he launched a comprehensive survey of 20 government departments which account for 82 per cent of total budgetary expenditures excluding public debt charges. This survey, known as Improvement in Management Practices and Controls

(IMPAC), is designed to form the basis for detailed action plans in each of the 20 departments to correct identified weaknesses in planning processes and in financial management and control systems. These action plans would also provide the foundation for a meaningful and reliable information system for the use of management at all levels and for comprehensive internal audit and program evaluation systems. The departmental action plans resulting from this survey are now being received by the Office of the Comptroller General, and are being assessed in detail, department by department. When this step has been completed, the Comptroller General will provide my Office and through it the Standing Committee on Public Accounts with the IMPAC action plans. In addition, he plans to extend the IMPAC survey to some of the remaining departments, thereby bringing the amount of expenditures coming under review to 86 per cent of the total.

The Auditor General Act (1977)

My first action after my appointment as Auditor General in July 1973 was to appoint an Independent Committee to review the responsibilities of the Auditor General including the scope of his duties, the nature of his reports, his independence and the nature of the relationships he should maintain within and outside the Government. I was fortunate in persuading two distinguished chartered accountants, the late J.R.M. Wilson, F.C.A., and Marcel Bélanger, C.A., and an equally eminent lawyer, A. Lorne Campbell, Q.C., to serve as Committee members with Mr. Wilson as chairman. Messrs. Wilson and Bélanger have served as Presidents of the Canadian Institute of Chartered Accountants and Mr. Campbell as President of the Canadian Bar Association.

The Report of the Independent Review Committee (Wilson Committee), tabled in the House of Commons in April 1975, contained 47 recommendations relating to the independence, scope of audit, reporting requirements and relationships of the Office of the Auditor General. The most important recommendation was that the Auditor General should report to the House annually on whether government expenditures had been made with due regard to economy and efficiency and whether procedures to measure program effectiveness were in place where it was reasonable to expect they should be. In short, he should conduct value-for-money audits. This recommendation and all of the others requiring legislative action were accepted by the Government and incorporated in the new Auditor General Act which came into effect on August 1, 1977. The extension of the Auditor General's scope and mandate to include value-for-money auditing is having an enormous effect on the work of the Office and ultimately will have a big impact as well on the economy, efficiency and effectiveness with which the Government and all levels of the Public Service manage public funds and resources.

Comprehensive Auditing for Parliament

Chapter 11 of my 1978 Report (the Centennial Report), recommended that my Office should respond to its enlarged responsibilities under the Auditor General Act by adopting a new five-component comprehensive auditing approach for

Parliament, characterized by the acronym FRAME. It was to be carried out in a constructive manner on a cyclical five-year basis, properly co-ordinated with comprehensive *internal* auditing within Government. FRAME stands for: F - Financial Controls; R - Reporting to Parliament; A - Attest and Authority; M - Management Controls (value-for-money auditing); and E - EDP Controls. The Public Accounts Committee in its Second Report tabled on March 23, 1979, endorsed comprehensive auditing, as recommended. It is now being implemented in the Audit Office. Chapter 2 of the Report contains further comments on the continuing development of comprehensive auditing by my Office.

Key Recommendations Not Yet Implemented

The four key actions cited above that have been taken during the last five years are of fundamental importance to Parliament -- and to the Government -- in improving the control and management of public funds and resources. My 1978 Report made three recommendations which I described as "pillars for improved resource management." I urged prompt action to implement in each department or agency:

- properly designed, reliable, timely and responsive financial information systems, serving as the core of the total management information systems and incorporating both financial and non-financial data;
- an appropriate financial management organization structure and team led by thoroughly competent comptrollers; and
- a comprehensive, integrated, and co-ordinated internal auditing function, incorporating economy, efficiency and program effectiveness evaluation and led by a thoroughly competent professional in each department responsible directly to the deputy head.

Also, we reported in 1976 the results of our major study of the financial management and control practices of Crown corporations, including 18 government-wide recommendations.

Let us now consider what action was taken on the three recommendations for improved resource management made in 1978 and on the most significant of the recommendations in both our 1976 study of Crown corporations and related reports of the Public Accounts Committee.

Improved Information for Parliament

My 1975 Report, based on the Financial Management and Control Study, sharply criticized the form and content of the information submitted to Parliament in the Estimates and the Public Accounts. It urged that the Treasury Board undertake a study to introduce substantial improvements, many of which were spelled out in detail. The summary comment in paragraph 2.14 of my 1975 Report reads as follows:

"Particularly important are the proposals for a study to determine how the Estimates can be more effective in disclosing to Parliament and the public the uses to which funds are to be put and the proposal designed to ensure that the Public Accounts are consistent with the Estimates in showing how in fact the funds have been applied. Without such disclosure there is no truly effective way that managers can be held to account for the extensive financial authorities granted to them."

In response to the more specific recommendations contained in paragraph 10.6 of my 1975 Report, the Secretary of the Treasury Board advised the Chairman of the Public Accounts Committee in a letter dated June 21, 1976, that:

"The President of the Treasury Board has agreed to study the form and content of the Estimates, the main purpose being to determine what should be done to improve the information flow to Members of Parliament."

In the absence of any action by the Treasury Board, I announced in my 1977 Report that I would initiate a demonstration project to illustrate improvements that could be made using existing departmental information.

My 1978 Report, as promised, illustrated in detail the kinds of reforms that could and should be made to improve the quality of information submitted to Parliament in the annual Estimates (Chapter 6 - 42 pages and Appendix D - 58 pages of statements and charts). Similar reforms were recommended for the departmental information contained in the Public Accounts.

The Public Accounts Committee devoted nine meetings in February and March 1979, to a thorough examination of the information and recommendations in Chapter 6 of my 1978 Report and reported its findings and recommendations to the House of Commons in its Third Report tabled on March 23, 1979 (see Appendix D of the 1979 Report).

On March 8, 1979, following a somewhat stormy meeting a month earlier with the Sub-Committee on Agenda and Procedure of the Public Accounts Committee, the Secretary of the Treasury Board reported back to the Sub-Committee on the results of a meeting he had agreed to hold with the Comptroller General and the Auditor General. Agreement had been reached that a steering committee, comprising the Comptroller General and the Auditor General with the Secretary as chairman, had been established to direct a task force of representatives of the two central agencies and of my Office, to begin designing an integrated government-wide financial information and accounting system. The system would cover the amounts Parliament authorized for expenditure by approving the Estimates, straight through to the final accounting for them, department by department, in the Public Accounts. Such a system would include quantitative non-financial data as appropriate.

In its Third Report, the Public Accounts Committee stated:

"5. Your Committee is concerned that Treasury Board has not yet presented the results of the study which it agreed to undertake

in June 1976. However, your Committee welcomes the undertakings which Treasury Board reported to the Sub-Committee on Agenda and Procedure on March 8, 1979, and which have been attached as Appendix PA-24 to Issue No. 20 of the Minutes of Proceedings and Evidence of the Standing Committee on Public Accounts, to introduce revisions to the form of the Estimates according to a timetable further described in paragraph 8 of your Committee's report. Your Committee is pleased to note that the review to be conducted by the Treasury Board Secretariat and the Office of the Comptroller General, with appropriate participation by the Office of the Auditor General, will extend to the content of the Public Accounts and the systems to ensure the integrity of the information reported both in the Estimates and the Public Accounts.

- "6. Your Committee believes that the revision of the form and content of the Estimates for the purpose of improving the information which Parliament receives, calls for immediate action. ...
- "8. Your Committee recommends that:
- (a) Treasury Board proceed immediately to produce illustrative estimates for specific departments in the Estimates for 1980-81 which can be tested by Members of Parliament individually and in committees;
 - (b) revisions be introduced on a government-wide basis in a parallel form in the 1981-82 Estimates;
 - (c) revisions which require additional work before their incorporation could be effected on a government-wide basis, be incorporated in the 1982-83 Estimates or as expeditiously as possible thereafter;
 - (d) consultation take place with your Committee and other parliamentary committees to ensure that revisions adequately reflect their needs;
 - (e) the Comptroller General be directly involved in the Estimates revision process;
 - (f) the Auditor General be consulted in the Estimates revision process; and
 - (g) your Committee be apprised at regular intervals as to the progress being made on the revision of the Estimates."

I was especially gratified by these developments, coming as they did after four years of mounting frustration because of inaction by the Treasury Board Secretariat in grappling with this fundamental issue despite its initial undertakings to

do so. It was of particular importance that the Public Accounts Committee chose to give Chapter 6 priority over other important issues in my Centennial Report, and completed its Report, which included numerous recommendations, just in time for tabling before Parliament was dissolved in March 1979.

To prepare for our advisory and consultative participation in this important project so vital to restoring parliamentary control of the public purse, I freed up the services of an Assistant Auditor General to be available to the task force full time if need be. I also ensured that the time of a Deputy Auditor General, Mr. Michael Rayner, and of my Special Advisor, Mr. Glenn Ross, as well as my own time would be available to the steering committee and the task force to whatever extent might be required.

It is therefore extremely disappointing and a matter of genuine concern that I must report to Parliament that this project to improve the information Parliament receives has stalled almost completely, despite the commitments of the Secretary of the Treasury Board to the Public Accounts Committee. The steering committee has never met and the task force has proceeded in such a desultory fashion that I have reassigned to other duties the Assistant Auditor General originally designated to assist it.

In a meeting with the President of the Treasury Board, the Honourable Sinclair Stevens, P.C., M.P., early in July 1979, I emphasized the importance of this project to Parliament and to the Government. It constitutes the cornerstone -- perhaps the entire foundation -- of the integrated financial information, control and reporting system of the Government of Canada. Without this foundation, there can never be any meaningful system of financial accountability throughout Government. And contemplated reforms of the parliamentary committee system announced by the Government are unlikely to have much effect without reliable and meaningful information.

It is pertinent to quote here one of many definitions of accountability that have surfaced since the appointment of the Lambert Commission. Frederick G. Mosher, in his book entitled *The GAO: The Quest for Accountability in American Government*, provides the definition in question -- one of the simplest and best I have discovered:

"the key to accountability is..., quite simply, information -- the openness with which an individual or agency operates and the access to information by persons outside who are in a position to do something about it, if necessary, and the ways in which relevant information is selected, processed, and utilized."

From this definition it follows that accountability will be direct and effective where information is reliable and meaningful. For reasons I have set out in detail in five successive annual Reports to the House of Commons, it is clear that neither of these latter adjectives applies to the financial information Parliament now receives.

The fact that the previous Secretary of the Treasury Board has resigned and his successor has only recently been appointed is not an adequate reason for stalling

this important study. Almost six valuable months and much momentum have been lost. I have been informed that responsibility for the top direction of this project has recently been transferred to the Comptroller General. I welcome this as a logical step.

I strongly urge that this whole matter receive priority attention at the highest levels of the Government. In particular, I recommend that the necessary professional resources be mobilized with all possible urgency to activate and expedite this vital project.

I further recommend that the newly organized Public Accounts Committee request the Comptroller General to submit a progress report and action plan for the project as soon as possible so its status can be ascertained and the plans for carrying it out will become a matter of public record for monitoring and follow-up by my Office and by the Committee itself. Chapter 4 of the Report contains additional comment on Parliament's information requirements.

Departmental Comptrollers

In addition to the two recommendations about the Comptroller General of Canada, my 1976 Report made a third key recommendation that the position of Comptroller be established in every department, agency and Crown corporation, and that appropriately qualified persons be appointed. I emphasized that the Comptrollers should be the senior financial executives in their organizations, reporting directly to their deputy heads and functionally to the Comptroller General. They should be members of departmental executive or management committees, should have authority fully commensurate with their responsibilities, and should be responsible for ensuring that fully satisfactory financial and management information and control systems are in place and operating effectively in their departments.

Paragraph 10.38 of my 1975 Report set out the main duties of these positions for the first time. Paragraph 2.17 of my 1976 Report again raised the issue. Chapter 8 of the 1978 Report was devoted entirely to the subject of Departmental Comptrollers; Chapter 3 of the 1979 Report discusses it further.

In the House of Commons on December 9, 1976, the President of the Treasury Board stated:

"Too many financial management and control operations are entrusted to clerical people and people whose qualifications are often insufficient. Many departments and agencies have not yet elevated their chief financial officer to the position that he or she must occupy in the management structure in order to maintain or upgrade standards of financial administration.... It is my opinion... that this person should report not through anybody else but directly, at least, to the deputy minister of the department, the chairman of a board, or the president of a Crown corporation."

Action on this key recommendation, first put forward four years ago, has been agonizingly slow. At present few appropriately qualified persons have been

designated as Departmental Comptrollers, reporting directly to the deputy head, serving as a member of the management committee and discharging substantially all of the responsibilities recommended for these positions.

Delay in proceeding with the designation of Departmental Comptrollers is understandable and may indeed have been justifiable pending the appointment of the Comptroller General, who took office April 2, 1978. It is essential that the designation of Comptroller be confined to those whose appointments bear the recommendation or endorsement of the Comptroller General. But the absence of such key officials in the top management structures of departments is bound to retard the progress of the overall improvement programs that my Office has been advocating since 1975 and that major departments are almost ready to implement through the IMPAC action plans agreed with the Comptroller General. *Greater attention to this matter is strongly urged and new, imaginative action plans must be generated, perhaps involving executive interchange with the corporate sector to provide the necessary impetus.*

It cannot be emphasized too strongly that a Comptroller, as envisioned, is more than an accountant or a bookkeeper. The job calls for much more than simply keeping track of allotments and ensuring that votes are not over-expended. One of the Comptroller's most important responsibilities is to be the right hand of the deputy head in ensuring that there is a good information system in place to identify promptly areas requiring executive management attention. Of course, the financial planning, control and reporting system forms the core of this management information system. The Comptroller serves as the pivot on which the entire financial information and control system rests and to whom all accounting and financial personnel are accountable in a functional sense for the effective discharge of the responsibilities assigned to them. He is a key member of the top management team, especially when, as is often the case, the deputy head is more concerned with, and experienced in, policy development than with general management and administrative leadership.

In a situation such as now exists, where many departments have inadequate management information and financial reporting systems, the Comptroller must be the vital driving force in the task of redefining the systems and implementing the required changes. The results of the government-wide Study of Procedures in Cost Effectiveness (SPICE) in my 1978 Report and the Study of Payroll Costs Management in Chapter 9 of this year's Report offer clear evidence that management at all levels is generally under-equipped to ensure that public funds are being spent economically and efficiently and that program effectiveness is being systematically evaluated. Therefore, it is all the more important to proceed as expeditiously as possible with the appointment of Departmental Comptrollers, who can be of invaluable assistance to the general managers of the Public Service, the deputy heads and their senior associates, in seeking to maximize the economical, efficient and effective use of public resources.

Appointments of qualified personnel to the key positions of Departmental and Agency Comptrollers have been made at far too slow a pace to achieve real progress in providing departmental management, the Government and Parliament with the information they must have to exercise even minimum control over the management of public funds and resources. New and imaginative steps must be considered if a reasonable target date for achieving these objectives is to be met.

Comprehensive Internal Auditing by Government for Government

Chapter 12 of my 1978 Report recommended that the type of comprehensive auditing (including value-for-money auditing) I adopted for audits on behalf of Parliament be used for internal auditing throughout Government. Internal audits should be *constructive* in terms of action-oriented reports to management, *cyclical* in terms of covering each auditable area on a timetable geared to a plan that is practical and appropriate to each department, and *co-ordinated* with the external audit conducted by our Office. Then economy, efficiency and effectiveness can be achieved in auditing in the same way as is expected for any Government program.

This recommendation was reviewed in detail with the President of the Treasury Board and the Comptroller General before the publication of my 1978 Report. In his letter dated October 13, 1978, which was included in my 1978 Report, the President of the Treasury Board expressed agreement with the principle of these recommendations. Implementation of comprehensive internal auditing has already begun in a number of departments. In other cases, decisions await completion of the Comptroller General's IMPAC review. The establishment of audit committees and the strengthening of internal audit functions, headed by experienced professionals with well-defined responsibilities, have been key recommendations of my annual Reports since 1975 and are described further in Chapter 6 of this year's Report.

Comprehensive internal auditing is an essential element of the overall plan of financial management and control and should receive priority attention. There is no reason why professionally qualified people could not be made available quickly to expedite this plan if the Government gives the necessary direction and sees that person-years and funds are applied to the program. I urge it to do so.

Control and Accountability of Crown Corporations

In recent years, increasing attention has been paid to the operations of Crown corporations. Previously, many operated with little publicity or attracted little interest in Parliament. In my 1976 Report, based on the results of the Financial Management and Control Study of Crown corporations (which I conducted as Auditor General of Canada on behalf of Parliament, and not in my capacity as the appointed auditor of these 27 corporations), I submitted the following opinion:

"In the majority of the Crown corporations audited by the Auditor General, financial management and control is weak and ineffective. Moreover, co-ordination and guidance by central government agencies of financial management and control practices in these Crown corporations are virtually non-existent."

Immediately following the tabling of my 1976 Report, the Lambert Commission was appointed with terms of reference that included inquiry into the financial management of Crown agencies and the accountability of their heads for administration. In April 1977, following a separate study by the Privy Council Office, the Government released a document containing its proposals for the

control, direction and accountability of Crown corporations. My 1977 Report commented on these proposals as they pertained to financial management, control and audit. The Public Accounts Committee considered my 1976 and 1977 comments and in April 1978 made a comprehensive report of its own to the House of Commons on Crown corporations. In March 1979, the Lambert Commission Report set out a number of important recommendations on the control and accountability of Crown corporations.

After all the intensive study of this complex subject by various bodies over the last four years, the time has come to deal with the issues that have been identified, and to resolve them. Chapter 8 of the Report summarizes the position of my Office on Crown corporation financial management, control and audit matters. It has been prepared to assist parliamentarians in considering the forthcoming legislation on Crown corporations. It reflects the continuing discussions that have taken place over the last three years between senior representatives of my Office and members of the Government's interdepartmental task force responsible for advising on the development of the legislative proposals. Two of the many matters contained in Chapter 8 warrant special comment. The first concerns the auditing arrangements applicable to Crown corporations and the second the need for central agency guidance on basic standards of financial management and control.

Comprehensive auditing for Crown corporations. In accordance with the provisions of the Financial Administration Act and the Auditor General Act, my Office has begun comprehensive cyclical audits in a number of Crown corporations, using the same five-component FRAME approach described earlier. The A component or attest audit must, of course, be conducted annually so the required audit opinion can be expressed on each corporation's annual financial statements. The other four components of the comprehensive audit are being undertaken on a cyclical basis -- the same as for departments and agencies: F (Financial Controls); R (Reports to Directors and Shareholders); M (Management Controls -- value-for-money auditing); and E (EDP Controls).

One question raised about the application of comprehensive auditing to Crown corporations concerns whether the corporation is dependent, in whole or in part, on the public purse. It has been argued that financially independent corporations should not be subject to comprehensive audits. I am firmly of the opinion that a corporation's commercial success in any one year or in a series of years should not determine whether it should be subject to comprehensive auditing on behalf of the beneficial shareholders -- the taxpayers of Canada. Few, if any, Crown corporations have profitability as a central objective or reason for existence. The key issue is ownership. Parliament, representing the Canadian taxpayers, has a right and a responsibility to ensure that Crown corporations are accountable for achieving government policy objectives. Because these objectives can seldom be measured on the basis of profitability, an examination of financial performance alone is not a sufficient basis for assessing performance. Comprehensive auditing can ensure an appropriate degree of accountability for Crown corporations without jeopardizing their independence from Parliament. For corporations owned outright by the Government, the comprehensive audit, as defined in Chapter 11 of my 1978 Report and endorsed by the Public Accounts Committee in its Second Report dated March 23, 1979, should be a requirement.

Chapter 8 of the Report notes that six Crown corporations considered to be cultural agencies will be studied by a joint parliamentary committee to determine what controls should apply to them. Meanwhile, they will continue to be governed by existing legislation rather than the new Crown Corporations Act. I strongly believe that an appropriate system of management control and accountability can be established without interfering with the program decisions or the artistic integrity of cultural agencies. All six cultural agencies clearly depend on the public purse and as such require the financial and management controls proposed for other Crown corporations that depend on taxpayer funding. I would oppose the exemption of individual corporations, for any reason, from the controls and accountability called for by their public ownership and degree of public funding. As an integral part of the process of accountability to Parliament, these cultural agencies should be subject to the same requirement for comprehensive auditing as other Crown corporations owned outright by the Government. To exempt them from appropriate controls, especially the independent assurances provided through a comprehensive audit -- which does not impair policy and managerial autonomy -- would be a basic denial of the principle of accountability.

There is a significant difference between reporting on the comprehensive audits of Crown corporations, and reporting on the comprehensive audits of departments and agencies called for by the Auditor General Act. Section 77 of the Financial Administration Act sets out reporting requirements for auditors of Crown corporations. They are the same whether the auditor is the Auditor General of Canada or a private auditing firm. Section 77 requires the auditor to report to the shareholder (the responsible Minister) on certain specified matters and also on any matters that he feels should be brought to the attention of the House of Commons. I understand that the audit reporting sections in the new Crown corporations legislation will also provide for reporting to the responsible Minister and, if the auditor considers it necessary, to the House of Commons.

In fulfilling his reporting responsibilities, the auditor should first communicate the results of his comprehensive audit to management and to the Audit Committee of the Board of Directors. Then a summary of the most significant matters should be presented to the corporation's board of directors. Finally, bearing in mind the arms-length relationship that Parliament intended should apply between the corporation and itself, the auditor should carefully consider whether any of his findings and the action (or lack thereof) on important recommendations are of such significance that they should be reported to the Minister, or other designated authority, for tabling in the House of Commons. We shall follow these reporting practices carefully for Crown corporations of which I am the auditor, and the auditors of other Crown corporations should follow them with equal care. As requested by the Public Accounts Committee, my Office is available to private sector auditors of Crown corporations for consultation on auditing and reporting practices.

Guidance to Crown corporations on basic standards of financial management, control and reporting. My 1976 and subsequent Reports recommended that a central agency, specifically the Office of the Comptroller General, be responsible for issuing basic standards of financial management, control and reporting for the guidance of boards of directors, executive management, and auditors of Crown corporations. The purpose would be to encourage consistency in applying the

minimum standards needed to ensure that public funds and resources entrusted to the corporations are under appropriate control, and that satisfactory financial management, control and reporting systems are in place.

The Lambert Commission's recommendations do not support this view. The Commission tends to emphasize the arms-length relationship between a Crown corporation and its shareholder, and relies heavily on the boards of directors to ensure satisfactory financial management, control and reporting practices. Where the real shareholders are, in effect, the taxpayers of Canada, and when public funds and publicly-owned resources are involved, I still firmly believe that the Government must have the means to ensure that the public interest is safeguarded. I see no possibility that a corporation's autonomy in policy or operational matters would be impaired or weakened if the Comptroller General published minimum standards of financial management, control and reporting. On the contrary, I am convinced that the executive management, the audit committees and the directors of Crown corporations would welcome such guidelines and standards. Not the least benefit would be that they would be entitled to receive assurances from their auditors that these minimum standards and guidelines are being complied with. I understand that the Government is giving further consideration to this matter as part of its review of the legislative and administrative control proposals affecting Crown corporations.

A Blueprint for Action During the 31st Parliament

I turn now to issues of *general management* arising both from the work of the Lambert Commission and the D'Avignon Committee and from my own observations over the last six years, supported by the results of the 15 government-wide studies and the hundreds of departmental and agency examinations conducted by my Office during that period. The proposals for management and productivity improvement outlined below, together with the key recommendations described in preceding sections for improving information for Parliament, for strengthening departmental financial administration and internal auditing functions and for ensuring the accountability of Crown corporations, constitute what I believe to be the key elements in a blueprint for actions required during the new Parliament to begin to restore public confidence in the *general management* processes of the Government.

Central Management of Human Resources

The D'Avignon Committee Report addressed this subject. The Lambert Commission Report also gave it a significant amount of attention. Each recommended that the Government and, more specifically, the Treasury Board assume the full responsibility for guiding the management of human resources throughout Government and that the role of the Public Service Commission be redefined to achieve this objective. I consider this recommendation eminently sound and fully compatible with the endeavours of my Office during the last five years to establish a more effective role in the structure of Government for the financial control and management of public funds and physical resources. In essence, both

D'Avignon and Lambert recommend that an office be established for human resource management, roughly compatible with and parallel to the Office of the Comptroller General, with responsibilities and relationships in the personnel field comparable to those of the Comptroller General in the field of financial management. This makes good sense. The Government cannot reasonably be held fully accountable -- as it should be -- for its management of human resources -- the most important resources of all -- when it shares responsibility with an agency of Parliament. A parallel would be if the Auditor General were also to act as Comptroller General -- an untenable and impossible situation for the Government, for Parliament and for the official.

General Management in the Public Service

My 1978 Report, when commenting on the results of the government-wide Study of Procedures in Cost Effectiveness (SPICE), included my opinion that there was a widespread lack of due regard for economy and efficiency in the operations of the Government, and inadequate attention to whether programs costing many millions of dollars were accomplishing what Parliament intended. I also said that our findings should not be taken as an indictment of public servants for ineffective management of public funds and resources, because their mandate was unclear and their training inadequate. Both Lambert and D'Avignon in their respective reports confirm that managing public funds and resources economically, efficiently and effectively has not been an important part of a typical mandate of most managers in the Public Service. Nor have most managers been adequately trained in applying the principles inherent in good business management.

The problem is compounded further by the fact that managers have not generally been furnished with the tools to do the job. My 1978 Report and this Chapter identify three of these tools: improved financial and management information systems; Departmental Comptrollers; and comprehensive internal auditing. The fourth tool has been identified by Lambert and D'Avignon as a manager of the human resources activities comparable in rank and functional responsibilities to the Departmental Comptroller. There still remains the question of mandate with which must be associated the appraisal of performance in terms of managerial capabilities and the system of rewards for good management and penalties for bad management which have been largely non-existent.

It would be presumptuous and redundant for me to dwell at any length on these subjects other than to identify them, in company with Lambert and D'Avignon, as vital in terms of effective general management. It seems incumbent on the Government, at the highest level, to redefine in specific terms what it expects from each manager, beginning with the deputy head, in managerial proficiency and accountability for results, including value for money. This clarification would become part of the managerial philosophy from top to bottom throughout the Public Service and would inevitably result in a change of attitude.

Chapter 9 of the Report notes that about \$170 million was spent on formal off-the-job training programs in 1977-78. Comparatively, a small proportion of money is spent in training courses in business-oriented management, especially in general management. As the D'Avignon Committee recommended, early attention ought to be given to this aspect of the responsibilities allotted to managers at

all levels up to and including deputy heads. Adequate ready-made facilities do not exist, making new and imaginative approaches essential to implement the theme in my 1978 Report -- "help the managers manage". That theme contrasts with "let the managers manage" (Glassco) and "require the managers to manage" (Lambert). Nonetheless, I agree with both admonitions. All three are compatible and mutually supportive.

In the past, departments have not made significant use of the Executive Interchange Program as a feature of managerial development. This program may be more appropriate for professional organizations such as my own Office than for managerial personnel in the public and private sectors. Certainly its use in our Office has produced excellent results and it has now become a built-in characteristic of our operations. A concerted approach to explore and exploit this valuable program to assist in developing the managerial capabilities of public service employees and in exposing private sector managers to the problems inherent in public service management could prove mutually beneficial.

As part of such a program, it might be possible to develop national panels of senior business and professional executives from the private sector. They would be asked to serve in special capacities on advisory boards or committees set up to advise government departments on the *management* of public funds and resources. They would not have a mandate to look at *policy* areas; they would concentrate their attention specifically on the resource management function. More specifically, individuals with managerial responsibilities in the public and private sectors might benefit -- and so might their respective organizations -- from a wider application of the Executive Interchange Program of the Public Service Commission.

I am not trying to suggest that the private sector manages everything well and the public sector manages everything badly. This may be the popular fallacy. I reject it. What I am saying is that in the private sector, the penalties for poor management whether in a corporation or by an individual are severe: bankruptcy in the case of a corporation and loss of employment in the case of an individual. No such penalties exist in the public sector for the organizational unit or for the manager. On the other side of the coin, exceptionally good management in the private sector means substantial rewards, both for the corporation and for the individual. No rewards of real consequence exist for exceptional, or even good management in the public sector. In these circumstances, it seems sensible to borrow from the private sector, at least for limited periods of time, the experience that characterizes good management and good managers. Equivalent opportunities could also be provided for public servants with good management potential to obtain experience in managerial positions in a business environment. The emphasis here should be on giving public servants experience that will promote their development as line managers well-grounded in private sector planning and financial control techniques.

The Public Service customarily rejects ideas such as these on the grounds that the objectives of government are different from those of business and that any attempt to meld them is inevitably doomed to failure. Furthermore, anyone proposing such ideas is usually regarded at best as a naive, impractical idealist.

After six years of public service, which has included quite intensive observation of government administration at reasonably close quarters and on a broad scale, I cannot agree. On the contrary, I am more than ever of the opinion that there is no reason whatever that the long-established and widely known principles and practices of economical, efficient and effective business management cannot be successfully applied in a wide range of government services. They will not, of course, be applied successfully without the will to do so. Leadership and motivation of this sort must come from the very highest levels of the Government on down. And this type of inspired leadership must have the unstinted and unswerving support of senior management, reinforced with the plans, skills, resources and determination to accomplish such results on behalf of our employers -- the taxpayers of Canada.

I am convinced that innovative and imaginative approaches are essential in training and developing effective general and middle management in the Public Service. Such challenges can be met successfully if there is a determination to do so throughout the Government, starting from the very top. Spectacular results are possible if the resources needed are effectively mobilized and skilfully applied.

Enhancing the Authority and Accountability of Deputy Heads

Since 1931, when the Government centralized most financial management and control responsibilities, studies like Glassco and Lambert have proposed greater authority for deputy heads so that they can be held accountable for the operations of their departments. The Lambert Commission found that the "deputy head's formally defined administrative authority, whether delegated, directly assigned, or implicit in legislation, provides a clear basis for his managerial role and accountability". It called on deputies to "exercise their delegated authority over departmental organizations, personnel and operation to ensure that maximum value is obtained from resources".

The Lambert Commission recognized a need for deputy heads to be held accountable in a systematic and coherent way for program management and administration. To this end, it proposed that deputy heads be designated the "Chief Administrative Officers" of their departments and that they be liable to be called before the Public Accounts Committee to render an accounting for their administration. It called for the deputies in their capacity as "Chief Administrative Officers" to develop departmental plans and performance goals and proposed that these be used in monitoring their achievements.

All the proposals make sense, but they will only work if the deputy heads have the authority and necessary tools to be held accountable. The Lambert Commission found that "deputy heads have less authority in personnel management than in any other area". It also found that they often lacked the tools needed to discharge their responsibilities successfully. To achieve significant improvements in resource management, deputy heads must be given greater freedom in the selection of their key subordinates. They need help from central agencies and from their own financial, personnel and internal audit groups to develop the information and systems required for effective management. They also need the sense of

managerial accountability that results from a rigorous but respected process for the appraisal of their personal performance, and the belief that their levels of remuneration are consistent with both their responsibilities and their achievements.

Productivity Improvement

As we move into the 1980s, we face a new environment regarding the expenditure of public funds. The massive increases in government spending fuelled by a buoyant economy in the 1960s and early 1970s can no longer be sustained. Economic difficulties have forced Canadians to look more carefully at government spending, and taxpayers are sending a clear message to governments, demanding value for money. This is reflected in the policies of the new federal Cabinet to eliminate unnecessary spending, and in a statement by the former Prime Minister in an address to the nation last year. What is required, Mr. Trudeau said then, is "more for less", which I took to mean more results for less cost.

Chapter 9 contains perhaps the most serious evidence of inadequate management of human resources from the standpoint of economy and efficiency by reporting the results of performance measurement tests in levels 1 to 4 of the clerical and regulatory occupational group which consists of some 50,000 employees across Government. Our tests, conducted in accordance with recognized standards and methods, showed an average efficiency of 60.8 per cent. It is generally agreed that where performance can be measured, 80 per cent is a minimum acceptable group performance. To confirm this, we surveyed 87 companies. Their average expected performance for clerical employees was 89.9 per cent while their average actual performance was 87.7 per cent.

Last year we commented as follows on the results of our examination of systems for measuring efficiency:

"Our examination of 16 performance measurements covering about 100,000 man-years in 12 departments revealed only two systems that were considered satisfactory. Most of the performance measurement systems reviewed did not play an important part in the program management process. They generally did not satisfy the information needs of the operating manager who must make the day-to-day decisions required to control productivity".

We also commented that:

"In most operations we audited, management did not know the actual level of efficiency or how much it might be increased. In most labour-intensive situations, there was insufficient effort to increase productivity."

Furthermore, as a result of our investigation of manpower planning systems this year, we comment in Chapter 9 that:

"Management generally did not have the means to ensure that human resources were of the right number and type for carrying out government programs efficiently."

These evaluations of current productivity levels raise an important question: if the Government's policy is to ensure that employees receive a fair day's wage, should it not also be a policy for both management and employees to ensure that the employer (in effect, the taxpayer) receive a fair day's work in exchange?

We have attempted to place some order of magnitude on the significance of our findings on the level of productivity in the group selected for the 1979 tests, which produced the average result of 60.8 per cent. With a minimum acceptable level of efficiency of 80 per cent, the shortfall is equivalent to a potential saving of resources of 24 per cent for the same output, or a potential increase in output of 32 per cent using the same resources. If these results are typical of the occupational group and if a minimum acceptable level of 80-per-cent efficiency could be attained, then the work now performed by 50,000 employees could be performed by 38,000. Another way of putting it is that if the level of efficiency could be raised to only the minimum reasonable level these 50,000 employees could do the work of 66,000.

This one rigorous and fairly comprehensive study indicates possible economies in *direct* payroll costs of about \$170 million, simply by improving productivity to a *minimum* acceptable standard. If we were to add *indirect* costs the figure would increase to well over \$200 million. In this single area, about one seventh of the Public Service, we are talking about potential cost improvement equal to as much as \$35 a year for each Canadian taxpayer -- a not inconsiderable sum, even in these inflationary days! This is a thought-provoking situation if it is typical of the Government as a whole -- which it probably is. This is the sort of issue that I think must be addressed constructively at the highest level of Government and reflected in an *integrated action plan for general management*.

The issue here is not simply the results of one performance test. Rather it is the entire principle of adopting sound, tried and true managerial practices for government activities wherever practical. In my opinion, it cannot be emphasized too strongly that the Government, starting at the Cabinet level, has at hand a unique opportunity for initiating positive and far-reaching action that will enable Canada's Public Service to enjoy the same opportunities and facilities as the private sector for the exercise of sound, economical, efficient and effective resource management.

I urge that the Government, at the highest levels, adopt a positive, co-ordinated action plan for addressing the fundamental issues raised by the comprehensive and intensive studies performed by the Lambert Commission, the D'Avignon Committee and my Office.

Role of the Office of the Auditor General

I should like to turn now to how the Office of the Auditor General can serve Parliament and the taxpayers of Canada more effectively in the future.

Canadian Comprehensive Auditing Foundation

A principal theme in my last Report to Parliament was the introduction of comprehensive auditing, described earlier in this chapter, to be applied in a constructive and co-ordinated manner and on a cyclical basis. To mark the 100th year of the Office, a centennial conference was held in Ottawa in December 1978, with the theme "Comprehensive Auditing -- Planning for Century II". The centrepiece of comprehensive auditing as we have defined it is the evaluation of management controls or, in short, value-for-money auditing. Value-for-money auditing in Canada has stemmed directly from the report and recommendations of the Wilson Committee tabled in 1975 in the House of Commons. The report provided not only the genesis of the Auditor General Act at the federal level in Canada, but also the foundation for legislative action in several provinces. Auditors in other provinces where legislation has not yet been enacted generally follow, wherever feasible, the broad guidelines set out in the Wilson Report.

My Office has been engaged since 1974 in developing what we now describe as comprehensive auditing and has applied significant professional resources to both methodology development and to training our professional staff in the new techniques. It seemed appropriate that we offer to share this methodology and the relevant training programs with our counterparts in Canada at the provincial level. Realistically it must be borne in mind that for all practical purposes the same taxpayers pay for our activities and their activities. The provincial parliamentary auditors and I have been meeting annually since 1973 to exchange information on professional matters and to pool our resources for staff development. It was, therefore, logical and natural that we should agree in December 1978 to work together to the maximum extent possible in both comprehensive auditing methodology and related professional development programs for our respective offices and staffs.

In 1978, the Special Committee to Examine the Role of the Auditor (Adams Committee) of the Canadian Institute of Chartered Accountants endorsed value-for-money auditing for chartered accountants in public practice engaged in the audit of governmental bodies and other publicly funded organizations. Many private sector audit firms are engaged in the audit of Crown corporations both at the federal and provincial level throughout Canada. As the benefits of value-for-money auditing become more widely known, universities, hospitals and charitable organizations, as well as municipalities, school boards, etc. will likely insist on this type of audit. It is, therefore, a natural development that private auditing and consulting firms and internal audit groups have a keen interest in the evolving methodology of comprehensive auditing in which we have been so deeply involved in the public sector at the federal level.

During our December 1978 discussions on a joint program for developing comprehensive auditing, my provincial counterparts agreed that we should invite all interested organizations engaged in auditing in the public and private sectors to join us in a co-operative, non-profit, research-oriented and professional development endeavour. Working with senior representatives of public accounting and management consulting firms, we began planning such an endeavour, modelled in structure to some extent on the Canadian Tax Foundation formed originally over 30 years ago under the auspices of the Canadian Bar Association and the Canadian

Institute of Chartered Accountants. It has been eminently successful in providing for fundamental and applied research in taxation and as a forum for tax practitioners. With our Office playing a co-ordinating role, plans are already well laid for establishing the Canadian Comprehensive Auditing Foundation within the next several months.

The Comptroller General of Canada, who has responsibility for co-ordinating internal auditing throughout the Federal Government, has been kept closely in touch with these developments and expects that his Office will join the other organizations interested in sponsoring the foundation. To fulfil our mandate from Parliament, we must continue developing comprehensive auditing methodology and training our professional staff in applying it. Obviously it makes good sense to share the task, the costs and the benefits with other interested organizations. We are providing leadership in this new approach to public sector auditing for use also by both public and private sector auditors of governments and other publicly-funded organizations. It is significant and gratifying that we are receiving the interested and active support and encouragement of the Canadian Institute of Chartered Accountants in this endeavour.

International Activities

Canada has served as a member of the United Nations Board of Auditors for 24 of the 34 years since the United Nations was established. In 1980, Canada will complete its fourth consecutive three-year term and, in somewhat belated recognition of the principle of rotation, the decision was taken with the approval of the Government that Canada should not stand for re-election when its present term expires next year.

In 1976 Canada, in collaboration with the other two then members of the Board of Auditors, Colombia and Pakistan, was instrumental in introducing some significant reforms in the organization of the audit and in the auditing practices. These included the introduction of systems-based auditing, the launching of the first comprehensive financial management and control studies, and the establishment of an Audit Operations Committee on which each of the three member states are represented under a chairman serving as Director General of External Audit. An Assistant Auditor General of Canada has served as chairman of the Audit Operations Committee and Director General of the U.N. external audit since 1976.

In 1979 Canada made several further proposals to strengthen the U.N. external audit capability. This initiative was placed before the Fifth Committee of the United Nations, which considers administrative and financial matters, in October 1979 by the Canadian Ambassador and Head of the Canadian Permanent Mission to the U.N., Mr. William H. Barton. The key proposals call for:

- an enlargement of the three-member Board of Auditors and a change in its role to become the Audit Committee of the United Nations;
- the establishment of the position of Auditor General of the United Nations with appropriate independence and authority, to be nominated by the Board of Auditors and appointed by the General Assembly; and

- the direction by the U.N. Auditor General of a central team of experienced professional auditors, supplemented as required by contracted specialized professional resources, which would provide the nucleus for training candidates from developing nations ultimately expected to be leaders in financial administration and government auditing in their respective countries.

Following consideration by appropriate committees of United Nations and by the Secretary General, this Canadian initiative will be considered again by the General Assembly in 1981.

Meanwhile, Canada has announced a plan for making scholarships available to appropriately qualified candidates from developing nations for training in Canada with our Office, or possibly with offices of provincial parliamentary auditors, under the auspices of the Canadian Comprehensive Auditing Foundation. Existing aid programs will provide up to \$500,000 a year over a five-year period for these scholarships.

Melding Private and Public Sector Auditing

In 1974 it became apparent that a government-wide evaluation of the quality of financial management and control systems should be made. This study was necessary to provide Parliament for the first time with an opinion on whether the measures and procedures in force were adequate to control the public purse. Moreover, the evaluation would also help determine the professional resources the Audit Office needed to introduce systems-based auditing.

An evaluation of that scope and magnitude was clearly well beyond the Office's in-house capacity and professional capabilities. Therefore an appeal was made to leading firms of chartered accountants in Canada to make available the services of audit partners and managers under the Executive Interchange Program. To help conduct the evaluation, 38 partners and managers from 19 audit firms joined for approximately 18 months to work with a similar number of Audit Office professionals on the Financial Management and Control Study (FMCS).

This melding of the professional resources of the Audit Office and private sector audit and consulting firms proved so effective and successful that the program has become an integral part of our operations.

Since 1974 similar teams of professionals have carried out three other major government-wide studies and numerous smaller projects. The staff members of private sector firms of chartered accountants and management consultants were either loaned to the Office under the Executive Interchange Program for periods of one to two years or supplied under short-term contracts. More than 500 professionals, representing more than 50 firms, as well as a number of individual practitioners participated in these projects.

This approach is a practical demonstration in the professional field of the policy the previous Government announced in 1975 to encourage sharing of government programs with private sector firms where practical and economical, a policy

consistent with the announced programs of the present Government. Over the last few years, 30 to 35 per cent of the Audit Office's expenditure was related to the services of private sector professionals either under Executive Interchange or short-term contractual arrangements.

The melding of public and private sector professional resources for legislative auditing in the manner described is believed to be unique both in Canada and elsewhere. Without the use of outside professional sources on the scale and on the basis applied, it would have been extremely difficult, prohibitively expensive and in fact virtually impossible to carry out the far-reaching government-wide studies which have drastically reformed the organization and audit practices of the Audit Office to meet the challenges presented by Parliament through the new Auditor General Act.

The results of this program have produced significant tangible and intangible benefits:

- The professional staff of the Audit Office have participated in team efforts with well-qualified people from public accounting firms and have benefited professionally through the association.
- More than 500 partners and staff members of public accounting and management consulting firms from across Canada have rounded out their professional qualifications and competence by gaining public sector audit experience and first-hand knowledge of the workings of public administration.
- The Audit Office obtained the services of an expertise on a national scale that it could not afford, and would not necessarily require on a full-time permanent basis.
- This working association appears to be significantly more economical, efficient, and effective than a permanent bureaucracy of comparable size and range of skills.

Service to Parliamentary Committees

The Government has announced its intention to introduce reforms in the organization and working arrangements of parliamentary committees. In the past, questions have arisen as to the nature of research and other facilities that could be made available to help make the work of parliamentary committees even more effective. Some questions have been addressed to my colleagues and to me on how the resources of our Office could be applied to assist the Public Accounts Committee, and possibly other parliamentary committees, by providing independent evaluations of financial data and related information where special inquiries of a financial nature are indicated.

In my judgment, it is not for the Auditor General to make direct recommendations in this connection. In accordance with the traditional practices of the Office, and in accordance with our interpretation of our mandate, we are pleased to receive

information from parliamentarians on matters or situations that they think call for inquiry or investigation. Invariably we follow up on such referrals and, if circumstances warrant, include the results in our next annual Report. Section 8 of the Auditor General Act now provides that in circumstances of pressing importance or urgency the Auditor General can make a special report to the House of Commons. This clause has not yet been applied.

In deliberations on the role of its committees, the House of Commons may wish to consider to what extent, if any, the professional resources of the Office of the Auditor General could or should be applied at the request of a parliamentary committee, either to provide expert financial advice as an independent agency of Parliament or to conduct inquiries or studies at the specific request of a committee. In this connection, it may be pertinent to remark that Section 11 of the Auditor General Act reads as follows:

"The Auditor General may, if in his opinion such an assignment does not interfere with his primary responsibilities, whenever the Governor in Council so requests, inquire into and report on any matter relating to the financial affairs of Canada or to public property or inquire into and report on any person or organization that has received financial aid from the Government of Canada or in respect of which financial aid from the Government of Canada is sought."

No doubt, if it were considered desirable to do so, some amendment of the Act could be contemplated which would permit the authority now available to the Governor in Council to be extended under special circumstances to a standing or special committee of Parliament, or to the House of Commons itself if the matter were of great importance. I want to emphasize that I am not recommending any specific course of action, but merely raising the matter for consideration. Should the matter be pursued, it is obvious that care must be taken not to risk in any way an impairment of the independence and impartiality which are vital to this Office if it is to serve Parliament effectively.

Conclusion

Today, as never before in the six years since I became Auditor General, there exists a climate of hope and expectation that the serious erosion of Parliament's control over the public purse can be halted and control restored. With the new Parliament, there is a new Public Accounts Committee, and with the new Government, a new Treasury Board. Supporting the Treasury Board is the new Office of the Comptroller General, created in 1978 in response to the deep concerns and key recommendations included in my 1976 Report. Moreover, as the 31st Parliament begins, two major reports dealing with the management of and accountability for the financial and human resources of the Government have been made public -- the Lambert and D'Avignon Reports.

The opportunity now exists for re-establishing a clear chain of accountability -- from Parliament, through the Government, to the senior levels of the Public Service and down to the lowest levels at which managerial responsibility is

exercised. There is a pressing need for imaginative leadership at the highest levels of Government to develop and implement an overall plan for economical, efficient and effective general management of public servants and of the public funds and physical resources entrusted to the Government by Parliament --and to Parliament by the taxpayers.

Within the next year, I shall reach the mandatory retirement age stipulated in the Auditor General Act. It seemed appropriate, therefore, that I should place on record in my final annual Report to the House of Commons an inventory of the major issues and recommendations reported by my Office during the last six years -- particularly those for which remedial action has not yet been initiated or on which progress has been disappointingly slow. Despite the promise of the times, I remain deeply concerned that the new Parliament's control of the public purse is at best fragile. Without strong, well-planned and co-ordinated action by Parliament, the Public Accounts Committee, the new Government, the Treasury Board and the Comptroller General, the current hopes and expectations of Canadians cannot and will not be achieved. I hope this inventory and program for future action will assist the 31st Parliament and its Public Accounts Committee to chart their course on resource management, control and evaluation issues during the 1980s.

* * * * *

With my term of office coming to an end within a few months, I must place on record that it has been an enormously rewarding personal experience to have been engaged, even for a few years, in the service of one's fellow citizens. Given a similar opportunity for public service, perhaps for a second career as in my own case, it is an experience that I highly recommend to my fellow Canadians. And by far the most interesting and rewarding experience of all has been to participate, at least in a small measure, in the Canadian parliamentary process and to observe and be associated with parliamentarians engaged in making it work -- and making it work better.

COMPREHENSIVE AUDITING (CHAPTERS 2 - 7)

Our 1978 Report described comprehensive auditing as a new approach for the Office that evolved largely from our work in the preceding five years. Beginning in 1973, the Office launched a series of major government-wide studies, each concerned with a key area of financial and management control and each directing attention to policies, systems and procedures established by central agencies. These studies laid the groundwork for the new audit approach.

In 1977, the Auditor General received an expanded mandate from Parliament under the new Auditor General Act, necessitating a broader audit scope and a practical systems-based approach to auditing. The skills, system approaches and criteria used in the earlier government-wide studies were integrated into what we have termed comprehensive auditing for departments, agencies and Crown corporations. In addition to being comprehensive, our audit approach is constructive, co-ordinated and cyclical.

By constructive, we mean an audit approach that draws attention to underlying causes of weaknesses and suggests to management lines along which improvements should be made. By co-ordinated, we mean co-ordination with and reliance on internal auditing to the extent possible. By cyclical, we mean reporting to Parliament at the completion of audits that may extend over several years, thus giving management time for corrective action and permitting more effective review by Parliament.

The objective of the new audit approach is to provide comprehensive information to Parliament on individual departments and agencies in terms of their management of public funds and other resources. To help familiarize members of our Office, managers in Government and parliamentarians with the scope areas of comprehensive auditing and the corresponding audit skills needed, we have adopted the acronym FRAME. The five integrated components are:

- Financial Controls - an evaluation of the controls over revenues, expenditures, assets and liabilities, including the organization of the financial function and its place in the general management structure; the qualifications and suitability of financial personnel to the needs of the organization; the appropriateness of the accounting systems and procedures; and the appropriateness and adequacy of budgeting and financial reporting systems.
- Reporting to Parliament - an evaluation of the nature, content, adequacy, reliability and timeliness of financial and related non-financial information presented in reports to Parliament. The principal formal reports to Parliament include the Estimates, the Public Accounts and the Auditor General's annual Report.
- Attest and Authority - the expression of an opinion on financial statements and the verification of parliamentary and governmental authority for expenditures.

- Management Controls - an evaluation of the system of management information and controls, including the internal audit/evaluation/review functions, so as to ensure there is due regard to economy and efficiency and that appropriate procedures to evaluate and report on program effectiveness, where such are feasible, are in place and operating satisfactorily -- in short, value-for-money auditing.
- EDP Controls - an evaluation of controls over financial and other information processed by computers and of management controls over the use of computer-related resources.

The three phases of comprehensive audit are planning, executing, and reporting. It is part of the planning phase of the audit to specify audit criteria -- reasonable standards against which management and financial control and reporting systems can be assessed. Audit criteria should be useful to Parliament and senior government managers as well as to this Office. For senior managers in Government, they constitute standards against which their systems and procedures are being judged and they provide a basis for developing or evaluating their own management procedures. For Parliament, audit criteria provide useful bench-marks for assessing Government's management of funds and other resources.

Defining audit criteria and obtaining a consensus on their appropriateness is not a simple task. Some sources, such as legislation, government directives and guidelines, and contemporary authoritative literature, state audit criteria explicitly. In the absence of such explicit criteria, the auditor must use his professional judgment and knowledge to develop criteria applicable to particular situations. The basic standard is what a reasonable and informed person would expect Government to do in the circumstances.

Where the Government has established management standards which we consider adequate, we audit against them. Where standards exist but we judge them inadequate, we suggest improvements. Where standards do not exist, we develop criteria for the circumstances. What we are attempting to do is to develop simply-stated criteria that can be applied to a variety of audit situations.

We have developed audit criteria in each of the five integrated FRAME components of the comprehensive audit. Their development is discussed in detail in Chapters 3 through 7 of our Report and they are set out in Appendix A to this Conspectus.

Chapters 3 through 7 have a dual purpose for Parliament: they summarize the work of this Office and others -- the Lambert Commission and the Government itself -- over the last five years in assessing resource management controls, and they summarize basic criteria for parliamentarians to use in their review of Government's management processes.

We believe that Members of Parliament, especially new Members, will be helped by these Chapters built around the five major components of comprehensive auditing. These five areas should be useful to parliamentarians as a framework for their own review of a department, agency or Crown corporation, or of management extending across Government.

CONTROL AND ACCOUNTABILITY OF CROWN CORPORATIONS (CHAPTER 8)

At present, there are some 400 corporations wholly or partially-owned or controlled by the Government of Canada. They range in size from some of Canada's largest transportation, manufacturing and financial corporations to small promotional and service entities. Together, 20 of the largest corporations have revenues of over \$8 billion, assets with a book value in excess of \$39 billion and over 169,000 employees.

This Chapter reviews developments since our 1976 Financial Management and Control Study, which included an examination of Crown corporations listed in Schedules C and D of the Financial Administration Act for which the Auditor General is the appointed auditor. It also compares the major findings of this Office and the Public Accounts Committee with those of the Lambert Commission and with the Government's current proposals in significant issue areas, and sets out matters which this Office believes parliamentarians should consider in reviewing draft legislation on Crown corporations. The Speech from the Throne of October 9, 1979, stated that legislation will be introduced to strengthen control over and accountability of Crown corporations.

Public ownership and accountability. The Government has generally used the corporate form of organization for conducting certain types of activity so that such entities have a measure of operating freedom from the close financial and personnel controls of government departments and from the possible interference by Parliament and Government in the day-to-day management of these activities. However, certain basic characteristics must be recognized when the Government creates or acquires wholly-owned corporations:

- the Government of Canada, as sole shareholder, has rights and obligations which are usually no less than those of sole shareholders in the private sector and it must exercise these rights and fulfil its obligations to protect the interests of taxpayers;
- Crown corporations are created to achieve public policy objectives that are not primarily the earning of profit; and
- the Government of Canada is usually the major and sometimes the sole source of financing, and substantial amounts of public funds are therefore at stake.

This combination of factors presents unique problems in establishing an appropriate system of accountability which balances the corporations' need for reasonable autonomy with the appropriate level of direction and control.

The ownership principle, simply stated, is that Parliament, representing the Canadian taxpayers, has a right and responsibility to ensure that Crown corporations are accountable for the achievement of government policy objectives. Because these objectives can seldom be measured on the basis of profitability, an examination of financial performance alone is not a sufficient basis for assessing performance in the achievement of the corporations' objectives. This factor,

together with the absence of market forces such as the pervasive influence of investing and lending institutions to which management in the private sector is normally subjected, demands of Crown corporations a different form of accountability from that found in the private sector. Moreover, because the boards of directors, the Ministers and Parliament depend on management of Crown corporations to provide the information necessary to fulfil their roles, there is a need for an adequate system of control and accountability and of public reporting to ensure the integrity of the whole process.

System of accountability. An adequate system of accountability for Crown corporations requires a legislative and administrative framework that includes:

- Mandate, direction and control
- Reporting
- Audit

These elements are essential to ensure that corporations, which are wholly-owned by the Canadian taxpayers, operate under a proper system of accountability; and that proper controls exist over the public funds expended through Crown corporations.

The intensive study of Crown corporation issues in the last four years by several bodies, including this Office, makes it clear that there are many generally acknowledged weaknesses in their accountability. As the Lambert Commission Report notes, many of these weaknesses were disclosed by the Glassco Commission which reported in 1962. Weaknesses noted by the Glassco Commission, which the Lambert Commission found largely uncorrected, included: unclear descriptions of mandates and responsibilities of corporations and of the powers of ministers and central agencies; lack of control over the creation of subsidiaries; inadequacy of the approach to corporate board and chief executive officer appointments; and abuses of the corporate form and financing methods.

In 1976, this Office reported that the information in annual reports of Crown corporations was not adequate or suitable for parliamentary assessment of their activities. This year, we reviewed the annual reports of corporations that the Lambert Commission proposed to classify as Crown corporations to assess the quality of their reporting practices and to identify areas where central agency direction was needed to achieve improvement. We concluded that no noticeable improvement has been achieved since our 1976 Report. The reporting practices of Crown corporations must change and someone must initiate the changes. We strongly support the Government's current proposals which will authorize the Treasury Board to develop and issue guidelines to Crown corporations on preparing annual reports. The proposals will require the Treasury Board to approve the form of the annual reports and the subject matter to be covered in them.

The greater the concern for the public policy objectives of Crown corporations relative to profit concerns, the greater the need for auditing that is uniquely suited to these corporations. Audit scope has to be extended beyond the traditional audit of financial statements. What is needed is auditing that reviews

financial and management controls and reporting, and which evaluates economy and efficiency aspects of the enterprise's operations as well as assessing the adequacy of procedures to measure effectiveness -- in other words, comprehensive auditing. This Office has already launched comprehensive auditing for the corporations we audit, and several of the larger Crown corporations are serving as a "laboratory group" in the further development of comprehensive auditing methodology.

Issues outstanding. The studies of the issues have led to a good degree of consensus about changes needed in Crown corporation legislation, rules and practices. In particular, there now appears to be agreement on the need for clear mandates for and direction and control of Crown corporations. We believe, however, that there are several remaining matters which merit further consideration. We see the need to:

- subject *all* wholly-owned Crown corporations, regardless of their purpose, to an appropriate regime of direction, control and accountability;
- clearly state criteria governing the scheduling of corporations;
- include in the Government of Canada accounting entity all Crown corporations that either depend on the public purse or carry on activities of a governmental nature;
- eliminate equity financing for Crown corporations that are either engaged in governmental operations or dependent on the public purse; and
- improve the nature and type of information on Crown corporations included in Volumes II and III of the Public Accounts.

We believe that action needs to be taken at an early date by the Government to resolve the arguments of the various concerned parties on Crown corporation issues still outstanding. However, with the consensus already reached in many areas and the Government's stated intention to proceed quickly, the anticipated new legislation is expected to be a major step in enhancing accountability and improving financial and management controls.

PAYROLL COSTS MANAGEMENT (CHAPTER 9)

Introduction

Effective management of the \$8.6 billion annual payroll of the Public Service is vital for ensuring value for money from the expenditures of the Federal Government. Policies, practices and systems in personnel management have a significant effect on the size of the Public Service, its efficiency and its operating costs. Out of a total 1978-79 budget of \$48 billion, operating expenditures amounted to an estimated \$20.5 billion -- so that payroll costs represented 42 per cent of that figure. Authorized person-years totalled 355,000.

The Treasury Board and the Public Service Commission are responsible for policies and procedures on the appointment, utilization, training and remuneration of public servants. Within this framework, deputy heads and senior managers in the departments and agencies of government largely determine the number, type and deployment of public servants, their utilization and development, and their remuneration.

In our Report, we present the findings arising from our audits of payroll costs management in nine government organizations.

The subject of payroll costs management has many aspects that might be audited, but we selected three for review:

- *Manpower planning:* systems for ensuring that the appropriate numbers of people are available with the required skills, when and where they are needed.
- *Training and development:* systems for identifying and meeting present and future skill, knowledge and attitudinal requirements to improve job performance and to cope with technological and other changes.
- *Human resource information systems:* systems for providing managers with basic personnel information; that is, profiles of employees and positions in an organization.

Owing to the deficiencies in performance measurement systems that we reported last year and the weaknesses in manpower planning found this year, we also decided to conduct an exploratory test of the level of efficiency in a major occupational group, the Clerical and Regulatory (CR) group, comprising about 50,000 employees across Government.

Problems of payroll costs management should be viewed in the larger context of management control problems in general, and in light of the widespread weaknesses in accountability in the Public Service. As the Lambert Commission concluded:

"One of the fundamental flaws in the present system is the almost total absence of any means by which departments and agencies are required to account for the efficiency and effectiveness with which they have employed the human and financial resources made available to them, or the attainment of goals set out in their departmental plans."

Lack of effective accountability for payroll costs management is also implicit in our findings. Therefore, for the ultimate remedies in this, as in other, areas of resource management, the Government should look to the larger issues raised by our own comprehensive audits and by the work of the Lambert Commission and others. These include the need for clear specification of objectives, authority and incentives for each level of management and thorough assessment of program results.

Manpower Planning

In its Personnel Management Manual, the Treasury Board states that departments and agencies should review staff requirements and identify their implications for staffing, training, classification and staff relations, and calls for action plans to meet future staff requirements consistent with government human resource program objectives and priorities. We support this position and look forward to its full application in the Public Service.

Our audit indicated that manpower planning has done little to help ensure due regard for economy and efficiency in the management of payroll costs. With some exceptions, departments did not have appropriate systems for ensuring that they employed the appropriate number of people with the required skills, when and where they were needed. Manpower requirements were not based on operational objectives and work plans. Manpower forecasting was weak. Systems to identify future shortages or surpluses of resources were not in place.

One of the basic reasons for these deficiencies was that line managers typically did not consider manpower planning to be an integral part of the management process and thus something for which they were accountable. Hence, manpower planning tended to lack a clear link with other major planning activities.

We concluded that departments and agencies should have manpower planning systems in place that will help ensure they are staffed with the numbers and types of people required for the efficient operation of their programs. The Treasury Board should clarify management responsibility for manpower planning and ensure that departments and agencies comply with its policy.

Training and Development

Training and development represents one of the most significant investments an organization can make in its human resources. Responsibility for programs is divided among the Treasury Board, the Public Service Commission and the various departments and agencies of Government.

In our opinion, management could not be assured that value for money was being received from expenditures on training and development in the departments and agencies we examined. We found that training needs were often not well identified and training was frequently undertaken at the request of individual employees, without adequate regard for the needs of the organization being given by those who approved the requests. Often training was poorly planned, its full costs were not captured, and it was not evaluated to determine whether it was worth doing. Moreover, departments and agencies were not fully complying with the Treasury Board's policies on training and development. The Board had not taken sufficient steps to enforce them.

The Treasury Board's annual report, Training and Development in the Public Service, estimated training expenditures at \$93 million for 1978. We estimated the cost to be in the area of \$170 million. Neither figure includes expenditures for employee benefits. This is not to say that the outlays are too high, but that most departments did not know how much they actually invested each year in training and development. Such lack of awareness may result in over-use of training and development and in insufficient emphasis on the development of appropriate systems for managing this activity.

To improve this situation, the Treasury Board should strengthen its policies on training and development by setting out minimum acceptable requirements with respect to the identification and analysis of needs, the selection, design and implementation of programs, the recording and reporting of costs, the evaluation of programs, and accountability for these matters.

On their part, departments should improve the planning and implementation of their training and development programs by ensuring that line managers identify training and development needs, ensuring that the expected costs and benefits of alternative ways of satisfying training and development needs are assessed, instituting appropriate systems for recording, reporting and controlling all training and development costs, establishing procedures for evaluating and reporting the effectiveness of training and development programs, and establishing clear accountability for these actions.

Human Resource Information Systems

Information from human resource information systems helps management to make decisions on manpower planning, training and development, and other components of the management of payroll costs. Such decisions largely depend on the content, accuracy and timeliness of information on the characteristics of the human resources of an organization. Human resource information systems can be expensive and complicated; and yet, they may still not provide useful information for management.

Both the central agencies and departments operate human resource information systems. In our audit we examined primarily the computer-based systems operated by departments. We did not examine the central agency systems, but we did observe some of the effects they have on the operation of the departmental systems.

We found considerable overlap and duplication both within departments and between departmental and central agency systems, and many deficiencies in their management. Agreed standards of accuracy, completeness and timeliness were lacking. Data were incomplete and inaccurate, and understanding of the capabilities of systems was limited. Responsibilities for their management were not well defined. As a result, users frequently developed their own unofficial, informal systems.

The departments and agencies we examined were aware of these problems and have tried to rectify them. However, the problems persist and it is our opinion that due regard for economy and efficiency is not being observed in expenditures on the operation of human resource information systems. The Treasury Board Secretariat, Public Service Commission and the Department of Supply and Services are aware of the problems and are developing policies and guidelines governing system development and operation.

We suggest that such policies and guidelines should foster the development and operation of systems that economically and efficiently meet the information needs of departmental and central agency management, and that eliminate unnecessary duplication among systems. More generally, they should promote economy and efficiency in the management of payroll costs.

A Test of Efficiency

In Chapter 4 of our 1978 Report, we brought Parliament's attention to widespread weaknesses in the 16 performance measurement systems we examined in 12 departments, covering about 100,000 person-years. This led us to suspect that the level of efficiency in those departments might be lower than one could reasonably expect. Our findings on manpower planning noted above strengthened this suspicion. We therefore decided to assess some instances of actual efficiency

through an exploratory test in four levels of a major occupational group -- CR (Clerical and Regulatory) 1-4. Employees in these categories typically perform work amenable to the application of work standards and therefore to the measurement of efficiency. Our audit covered one unit in each of 10 departments. These departments have a combined total of 28,500 clerks or about 60 per cent of the CR1-4 group as a whole. The employees involved perform a variety of routine clerical tasks such as payroll administration, filing, forms processing and analysis. The 10 units ranged in size from 6 to 40 employees, and averaged 16.

For the most part using Methods-Time-Measurement (MTM) techniques, we measured efficiency against the criterion developed in our 1976-78 Study of Procedures in Cost Effectiveness and reported last year: that 80 per cent of a standard established by work measurement is the minimum acceptable group performance. This criterion has been reviewed with and endorsed by senior advisors to this Office from the government, academic and business sectors.

The average measured efficiency in the 10 units was 60.8 per cent. This is well below the minimum acceptable level of 80 per cent. The shortfall demonstrated by this test points to a potential saving in resources of 24 per cent for the same output or to a 32 per cent increase in output from the same resources.

In our view, departments and agencies should identify those operations which lend themselves to the various techniques of work measurement and should determine the potential savings from improvement in efficiency. Where improvement in efficiency is feasible and the benefits would exceed the costs, programs to increase efficiency should be introduced. Where efficiency-improvement programs can be introduced, actual efficiency levels should be measured periodically and reported to management. Departmental internal audit should monitor efficiency and make recommendations for improvement. The Office of the Comptroller General should be given periodic performance reports from departments and agencies on what areas of their operations are carrying out measurable work, what work is being measured, and what levels of efficiency are being achieved.

MANAGEMENT OF TELECOMMUNICATIONS (CHAPTER 10)

Telecommunications in Government includes, among other services, telephone, teleprinter, data transmission and facsimile transmission. The purpose of our study was to determine whether departments and agencies were acquiring and administering their telecommunications with due regard for economy and efficiency, in accordance with the policies, directives and guidelines set out in the Treasury Board Guide on Telecommunications Administration, and whether the Department of Communications was carrying out its legislative responsibility for planning and co-ordinating telecommunications services on behalf of Government.

We examined the financial and management controls over telecommunications in seven departments and concluded that there was a general lack of compliance with the Treasury Board guidelines, and that the Department of Communications had not carried out its responsibility to plan and co-ordinate telecommunications services throughout Government. In our opinion, the Government's knowledge of the extent, use and cost of telecommunications is inadequate. We concluded that money was being spent on telecommunications without due regard for economy and efficiency.

Several steps should be taken promptly to bring management control systems for telecommunications up to a satisfactory level.

The Department of Communications should develop objectives and an operational plan to implement its mandate to plan and co-ordinate telecommunications for Government. The plan should include the means to identify and recommend to Treasury Board, networks and systems used in Government where savings can be achieved through consolidation or integration. The Department is now taking steps to implement these improvements.

As part of its evaluation procedures, the Treasury Board should monitor and report on departmental adherence to the Guide.

Departments should assess the impact on their operations of the Treasury Board directives and guidelines and should comply with the Guide on Telecommunications Administration. In addition, departments and agencies should develop management and financial controls to ensure that telecommunications services, equipment and personnel are planned and controlled in accordance with the policies, directives and guidelines set out by the Treasury Board.

The Department of Communications should establish and submit for Treasury Board approval service standards that will improve the cost effectiveness of telecommunications. The Government Telecommunications Agency should

conduct a cost feasibility study on the type of administrative controls that could be introduced to assist departments and agencies to control the use of telephone call access codes.

Departments should identify and monitor the cost of commercial long distance calls originating with employees, calls accepted from the public and traffic on circuits leased for public use so that they can systematically analyse and report on the cost and provision of these services.

ORGANIZATION AND PROGRAMS OF THE OFFICE OF THE AUDITOR GENERAL (CHAPTER 11)

Organization of the Office

Chapter 11 of the 1978 Report outlined a proposed new approach to conducting our work for Parliament in the form of comprehensive auditing. This fundamental change in our approach received the approval of the Standing Committee on Public Accounts in its Second Report to Parliament, dated March 23, 1979. Following this endorsement, the Office announced some further significant organizational changes in May 1979. The new plan of organization has provided the strength of leadership and executive direction necessary to meet the requirements imposed by the new concepts and developing methodology of comprehensive auditing. The revised plan of organization is shown in Exhibit 11.1, reproduced here.

The Office is organized into the following six Branches:

The *Departments and Agencies Branch* is responsible for organizing and conducting legislative, financial and comprehensive audits in government departments and agencies. Comprehensive audits are planned on a five-year reporting cycle.

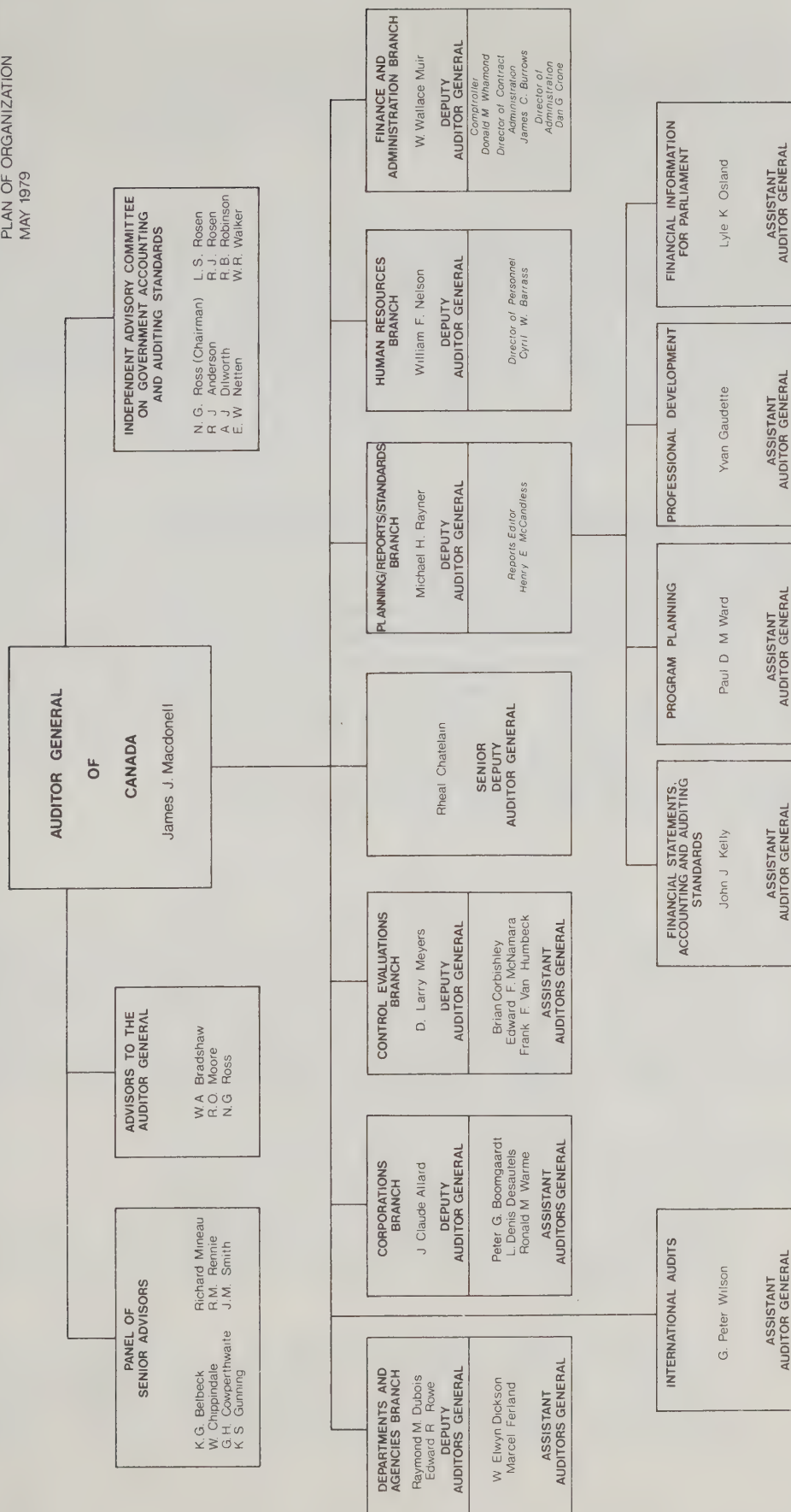
The *Corporations Branch* is responsible for the organization and conduct of comprehensive audits in the Crown corporations for which the Audit Office has audit responsibility and for liaison with the management and auditors of other Crown corporations.

The *Control Evaluations Branch*, comprising a wide range of disciplines, provides specialist support to the audit teams and carries out quality control reviews of audit work in specialized areas. This Branch also conducts audits of financial, management and electronic data processing controls on a government-wide basis.

The *Planning/Reports/Standards Branch* is concerned with a number of supportive and advisory professional activities, all vital to audit operations. A major responsibility is co-ordinating the preparation of the annual Report to the House of Commons and maintaining continuous contact with the Standing Committee on Public Accounts, with Members of Parliament, with central agencies of the Government and with the Office's legal advisers.

The *Human Resources and Finance and Administration Branches* provide the various support services and controls required to staff and service the professional organization.

Within the Planning/Reports/Standards Branch, the Financial Statements, Accounting and Auditing Standards group co-ordinates the examination of the accounts and financial statements of Canada and recommends to the Auditor General the nature of the opinion he should provide on the main financial statements included in the Public Accounts. The group is also responsible for



Executive Committee-- Auditor General, (Chairman); Deputy Auditors General.
Management Committee-- Auditor General, (Chairman); Deputy Auditors General; Assistant Auditors General.

advising the Auditor General on principles and practices of accounting appropriate to the accounts and financial statements of Canada, and for developing and maintaining modern auditing standards, conducting research in accounting and auditing, providing a consultative service to staff, and developing and maintaining the Office's audit manuals and guides.

The Program Planning group co-ordinates both the development of the Office's audit plans and the assignment of professional staff to the various Branches. The Professional Development group is responsible for the training and development of professional personnel. The Financial Information for Parliament group is responsible for co-ordinating the government-wide study of information for Parliament and developing related audit methodology. It also conducts the comprehensive audits of Parliament and central government agencies.

The Auditor General has three groups of advisors. Each group is made up of leading professionals from major accounting and management consulting firms. The *Panel of Senior Advisors* counsels the Auditor General on the application of comprehensive auditing, with particular emphasis on comprehensive auditing for public sector corporate entities. It is composed of the heads of seven national accounting and management consulting firms. The *Independent Advisory Committee on Government Accounting and Auditing Standards* is made up of senior members of accounting firms, management consulting firms and university faculties. The Committee provides advice to the Auditor General on difficult accounting, auditing and reporting issues. Three senior *Advisors to the Auditor General* provide advice on complex professional matters referred to them and carry out assignments which take advantage of their expertise.

Programs

Elsewhere in this Conspectus, we have presented summary descriptions of the audits and studies carried out during 1978-79. The comprehensive audits conducted in six departments and agencies are reported in Chapters 12 through 17 and are summarized in Part 2 of this Conspectus. Observations on the financial statements of Crown corporations are discussed in Chapter 18, and Chapter 19 comments on observations reported under Section 7 of the Auditor General Act.

Other activities of importance include:

- *Continuing assistance to the Standing Committee on Public Accounts* and assistance to the Sub-Committee on Agenda and Procedure in planning the Committee's schedule for its review of the annual Report.
- *International audits.* During the past year, the Office had major responsibilities in the audit of the United Nations and its associated organizations, the International Civil Aviation Organisation and the International Monetary Fund. We also

participated in the work of a variety of international audit organizations. The Auditor General is one of three members, and the current chairman, of the Board of Auditors of the United Nations.

- *International activities.* The Senior Deputy Auditor General represented the Auditor General at the annual meeting of the Governing Board of the International Organisation of Supreme Audit Institutions (INTOSAI), held in Nairobi, Kenya in June 1979. The Auditor General led the Canadian delegation to the 21st Regular Session of the Panel of External Auditors of the United Nations, the Specialized Agencies, and the International Atomic Energy Agency in Geneva, Switzerland in October 1979.
- *Joint initiatives with other organizations.* The Canadian legislative auditors held their seventh annual conference in St. John's, Newfoundland, August 13-15, 1979. Some 40 members of the federal and provincial audit offices attended and, in addition, a number of the chairmen of various provincial public accounts committees attended as observers and participated in a joint session with the legislative auditors on the final day. The agenda included such topics as: Comprehensive Auditing - Methodology Development; Professional Development Programs; and Financial Reporting by Governments.
- *The Canadian Comprehensive Auditing Foundation.* This Foundation, a professional, independent body, will be established for the purpose of pooling the methodology and professional development activities of both external and internal auditors in the public and private sectors, who are responsible for applying comprehensive auditing to the clients they serve. We are currently working together to define the organizational and operational structures and activities of the Foundation. It is expected that the Foundation will be incorporated early in 1980.
- *1979 Executive Interchange Program.* Forty-two professionals from accounting and consulting firms across the country joined the Office, in September 1979, to take part in an intensive program in comprehensive auditing. The group is composed of partners, managers and consultants who are participating under the Executive Interchange Program of the Public Service Commission. They will spend two years with the Office as active participants in comprehensive auditing in the public sector.

Part 2

DEPARTMENTS, AGENCIES AND CROWN CORPORATIONS

COMPREHENSIVE DEPARTMENTAL AUDITS

Introduction

As discussed more fully in Chapter 2 of the Report, this Office has embarked on a comprehensive audit program involving examinations, on a cyclical basis, of those entities subject to audit by the Auditor General. Summaries of the results of comprehensive examinations of departments and agencies are included in our annual Reports to Parliament.

As was the case in the 1978 comprehensive audits, our audit coverage varied among departments and agencies to reflect a number of factors. These included the nature of the department or agency operations, the results of previous audits and matters of particular interest to department or agency management. As a result, the audit findings reported for each department and agency do not follow a completely consistent format.

It should be noted that this Conspectus is a summary of the chapters of the Report which are themselves summaries of the principal findings of our audits. Thus, it contains only highlights of our findings. For more information on the nature of the problems identified and the courses of action recommended, the reader is referred to Chapters 12 to 17 of the Report.

Canadian International Development Agency (Chapter 12)

The Canadian International Development Agency (CIDA) was established by Order in Council in 1968 to succeed the External Aid Office which reported to the Secretary of State for External Affairs. It is charged with the responsibility of administering Canada's official program of assistance to developing countries. Its objective, as stated in the Estimates for the fiscal year ended March 31, 1979, is "to support the efforts of developing countries in fostering their economic growth and the evolution of their social systems in a way that will produce a wide distribution of the benefits of development among the population of these countries, enhance the quality of life and improve the capacity of all sectors of their population to participate in national development efforts".

Canada's Strategy for International Development Cooperation 1975-80 has set the framework for Canadian development assistance policy in recent years. A major element of the strategy is the United Nations target for aid of 0.7 per cent of donor nations' gross national product (GNP). The target was accepted by the Government as the goal toward which the Canadian development assistance program would gradually move. At present, Canadian aid disbursements represent 0.49 per cent of Canada's GNP. The 1978-79 Estimates show expenditures of \$1,037 million and 969 person-years for the Agency.

The Agency has three program branches responsible for delivering Canada's aid. They are:

- the Bilateral Programs Branch, which provides economic, technical and social development assistance directly to developing nations. In four geographic regions, it manages more than 2,400 projects with a value exceeding \$3 billion.
- the Multilateral Programs Branch, which provides funds, in common with other countries, to international institutions responsible for delivering assistance to developing countries. In 1977-78, the Multilateral Programs Branch assisted more than 50 individual agencies or programs and four international financial institutions.
- the Special Programs Branch, which assists Canadian and international non-governmental organizations which, in turn, assist developing nations. CIDA contributes to about 250 of these organizations. Under the Industrial Co-operation Program, the Branch's activities have been expanded to include support for Canadian industrial firms.

The Agency's environment. The Agency's activities are influenced by many domestic and international factors over which it has limited or no control. These include:

- the social and economic conditions that affect the ability of developing countries to absorb various forms of assistance;
- the availability of skilled people who are prepared to travel to the developing countries;
- the activities of other donor countries and international institutions; and
- the effect of the specific objectives of other departments, especially the Departments of External Affairs, Finance, Industry, Trade and Commerce, and Agriculture.

Scope of Audit. Our audit of CIDA included an examination of the Agency's major programs and its financial and other management systems. In the Bilateral Programs Branch, we reviewed management controls over projects, programs and human resources, and the Branch's procedures for evaluating program effectiveness. In the Multilateral Programs Branch, we focused on management procedures for planning and monitoring the program and for evaluating its effectiveness. Within the Special Programs Branch, we examined procedures for determining the allocation of funds and the monitoring of the organizations and projects it is supporting.

We also reviewed the role of the Operational Audit Division, payroll costs management within the Agency, and CIDA's systems and procedures for procuring goods and for obtaining the services of consultants and advisers.

Management systems. Since its establishment in 1968, the primary focus of CIDA's efforts has been on carrying out its principal purpose -- delivery of Canadian assistance to developing countries. During this period, CIDA's budget increased from less than \$160 million to more than \$1 billion. The emphasis on program delivery, however, has not, until recently, been supported by the development and implementation of adequate management systems. Although weaknesses exist in these systems, management is aware of them and is in the process of developing or implementing corrective action.

Financial management. In previous studies in 1975 and 1976, we identified a number of weaknesses in CIDA's financial control procedures. The Agency responded by establishing a Comptroller's Branch in 1977 and appointing a Vice-President Comptroller in early 1978. These important steps were designed to strengthen financial management practices and procedures.

The Agency also initiated the development of a Financial Accounting and Control System (FACS) in 1977 which was subsequently abandoned as it was deemed inappropriate for fully satisfying the needs of management. Recently, the Vice-President Comptroller prepared detailed work plans to correct some of the known deficiencies. The work plans focused almost exclusively on the needs of the Comptroller's Branch and did not present a clear statement on the short- and long-term issues and priorities facing the Agency as a whole. Currently, a Long Range Systems Project is being developed and this is expected to be completed by the end of 1979.

A start has been made toward improving financial management, but progress in actually instituting improvements has been slow. The development of effective financial management and control systems needs greater priority, particularly in view of the considerable financial resources administered by CIDA. The development of these systems will require the full commitment of all managers in the Agency.

The Bilateral Programs Branch. Weaknesses existed in project management and control within the Bilateral Programs Branch. The most significant of these were:

- a lack of consistently applied and understood methods of formal project planning and control;
- inadequate volume and quality of information from field project managers; and

- a lack of preciseness in the methods used to evaluate the effectiveness of projects. Evaluation plans were expressed in broad or general terms.

The Agency is developing and implementing improvements to overcome these weaknesses.

The Multilateral Programs Branch. Although CIDA has been unable to evaluate the effectiveness of development projects initiated by multilateral agencies with the assistance of Canadian funds, the Multilateral Programs Branch is encouraging multilateral agencies to conduct their own evaluations. CIDA is also conducting a limited assessment of the organizational capability of multilateral agencies to which Canada is providing funds. These assessments should be improved and considered more extensively by CIDA when allocating funds.

The Special Programs Branch. In the Special Programs Branch we found that effective program control over the use of the funds entrusted to non-governmental organizations (NGOs) was limited. This was due to the Agency's practice of non-interference with the organizations being supported. Although the Agency had included in its agreements with the NGOs the terms and conditions required by a Treasury Board directive relating specifically to contributions to Canadian NGOs, the monitoring of compliance with these terms needed to be improved.

Contracting for goods and services. Procedures governing contracting for goods and services, which accounted for approximately two-thirds of CIDA's budget in the last decade, needed to be strengthened, mainly in the following areas:

- clear and precise definition and understanding of responsibilities was needed between CIDA and those agencies procuring food, to ensure value was being received for public funds disbursed;
- more stringent conditions with suppliers were required to ensure that goods met quality and delivery specifications; and
- greater control was required over contracts with consultants and advisers to ensure minimum amendments, proper authorizations, and early detection and justification of possible cost overruns.

Payroll costs management. The proper determination of personnel requirements for administering programs is a complex task and, although the Agency had recognized the need for effective manpower planning, it had not developed systematic procedures for doing so. As a result, it did not know with reasonable certainty how many people were required to carry out its programs. While CIDA has extensive plans for improving its manpower planning system, manpower planning within the Agency will not be effective until these improvements have been implemented and there is an appropriate link between manpower and project plans.

The Agency did not have formal procedures for determining priorities for training and development or for evaluating benefits derived from such training. CIDA's human resource information systems were not satisfying the needs of managers.

Internal audit. Although the quality of work performed by the Operational Audit Division has been generally satisfactory, audit coverage was incomplete and the President was not provided with enough information to assist him in the management of CIDA. Furthermore, methods and procedures for planning and monitoring audit assignments had not been fully established in the Operational Audit Division.

Canadian Transport Commission (Chapter 13)

The Canadian Transport Commission (CTC) is the single federal agency responsible for the regulation of transportation in Canada. A court of record organized into seven committees and two branches, the CTC performs judicial, regulatory, and subsidy administration functions in the areas of rail, air, water, motor vehicle and commodity pipeline transport. In addition, the Commission is concerned with international transport policy, traffic and tariffs, and research activities.

During 1978-79, the CTC accounted for gross expenditures of \$471.6 million and for 878 person-years.

Scope of audit. Our 1978-79 comprehensive audit of the Commission included:

- an examination of the systems used for financial planning, budgeting and reporting and the integration of those systems with operational planning and controls;
- an examination of the Rail Economic Analysis Branch and the methods used to verify subsidy claims and payments made under the Railway Act;
- an examination of the practices, controls and procedures for the electronic data processing of financial information;
- an evaluation of internal audit goals, plans, standards and procedures;
- a Commission-wide review of the procedures in place for measuring the effectiveness of the different programs; and
- a review of selected major activities in the personnel function, including manpower planning, human resource information systems, and training and development.

Financial planning, budgeting and reporting. Our examination indicated that the Commission had not devoted sufficient attention to developing a management system of planning, budgeting and reporting. Resource requirements and expected benefits were not expressed in relation to formally established objectives and activities approved by management.

The Commission had not implemented a formal planning process nor had it developed annual operating plans that described the work programs expected of each manager or indicated means whereby managers' performance would be measured.

The CTC has recognized this weakness and plans to introduce improvements to the financial planning and budgeting process that will include the preparation of time-phased work plans for better control of operations and staffing.

Although there were some essential elements of a comprehensive accounting system in place in parts of the Commission, accounting systems were weak because they did not include operational data, were not based on an operational budgeting system and were not implemented throughout the CTC.

To augment the disclosure of its accomplishments, the CTC should include in its annual report to Parliament an accounting, both in financial and operational terms, of the activities planned in support of the Estimates and the success achieved in carrying out these activities. Disclosure would be improved if explanations of resource allocations and utilization were given.

Auditability of payments under the Railway Act. Our studies indicated that the CTC did not have adequate procedures in place to ensure that there was a proper verification of the loss claimed by a railway company and certified for payment out of the Consolidated Revenue Fund. Payments to railways under these subsidy programs amount to approximately \$350 million per year.

In our review of the procedures used to verify rail subsidy claims, we found that:

- there has been no evaluation of the accuracy and reliability of the railway companies' accounting and financial systems;
- source data used in the development of unit costs have been subject to limited verification;
- there has been no recent regular audit to verify output units; and
- current procedures manuals and audit programs are general in nature and do not include some essential verification procedures or guides.

The Commission has acknowledged that a number of deficiencies exist in its current operating procedures for verifying data submitted to support a claim for loss incurred in operating an uneconomic branch line or passenger service. The CTC plans to institute revised audit procedures that should materially strengthen the level of confidence that the Commission has in the data supplied to it. Major improvements will include a systems-based audit of the railways' accounting systems, verification of service or output units and upgrading the technical level of the staff conducting these examinations.

Procedures in place to measure effectiveness of programs. We examined three major activities of the Commission -- economic regulation, safety regulation and subsidy administration -- to determine if it would be reasonable and appropriate for the Commission to evaluate the effectiveness of these programs. We determined that, although it would have been reasonable and appropriate, the CTC had not measured their effectiveness. Thus, the Commission did not have objective information about the impact of its programs.

Although, in some cases, responsibility for program evaluation was not clearly assigned to the Commission, it does have within its mandate the authority to undertake such studies and, as the administrator of these programs, is in the best position to conduct them.

Other issues. We found that several of the subsidy programs administered by the Commission could be made less costly or easier to administer. These included:

- Atlantic and Eastern Grain and Flour subsidies;
- Atlantic Region Freight Assistance Act subsidies; and
- subsidies for uneconomic branch lines which may be affected by "bridging" traffic and by the Department of Transport Prairie Branch Line Rehabilitation Program.

The CTC has a mandate to report to the Minister of Transport on how the administration of subsidy programs could be improved. We found little evidence that it had exercised this mandate.

Current organization of the Commission. The Commission is currently reviewing its organizational structure and is in the process of rationalizing some of the administrative functions of the committees. The current organization of the Commission contributes to several of its problems. The committee chairman acts both as the judicial head of the committee when it is sitting and as the administrative head of the committee staff. This combination of responsibilities imposes many competing demands on the chairman's time. For example, applications to abandon uneconomic branch lines and discontinue uneconomic

passenger services require public hearings and in-depth analysis before a decision can be rendered. The committee chairman plays a key role in this essential but time-consuming judicial process. At present, the processing of an application requires 3.5 to 4.0 years before a decision is made and consumes a large portion of the chairman's time.

Moreover, numerous issues relating to the determination of the actual loss incurred in the operation of railway branch lines remain to be resolved and also require a major portion of the chairman's attention. To illustrate, not one claim for loss in respect of an uneconomic branch line has yet been finalized. The backlog of unpaid claims for uneconomic branch lines and passenger services amounted to \$407 million as of March 31, 1979.

Organization of the Commission staff into separate groups servicing individual committees is not conducive to the necessary integration of forecasting, budgeting and reporting at all levels.

Payroll costs management. Our studies indicated that the Commission lacked an adequate manpower planning system. This may create serious problems in attempting to provide for the extensive number of retirements that will occur in the various Committees over the next few years.

Analysis of the Commission's manpower utilization rates indicated considerable fluctuation between the person-years requested and those used. There was little evidence that manpower requests were based on a realistic assessment of manpower requirements. Little or no information was available on attrition rates, historical trends, and training and development requirements. In effect, the Commission lacks the information or the systems to determine with any precision its manpower requirements or its training and development needs.

Internal audit. A review of the Internal Audit Unit, established three years ago, revealed that it had completed few audits and had no approved mandate. In addition, no short- or long-range operational plans had been developed to execute a proposed mandate.

Department of the Environment (Chapter 14)

The Department of the Environment was established in June 1971 by the Government Organization Act. Its mandate included the responsibilities of the former Department of Fisheries and Forestry as well as a number of other responsibilities related to the environment that had been discharged by other government departments. On April 2, 1979, the Department's Fisheries and Marine Program became a separate department - the Department of Fisheries and

Oceans. References made in this Chapter to "Department of the Environment", or simply "the Department" exclude the Fisheries and Marine Program. A further organizational change occurred early in June 1979, when the Parks Canada Program was transferred to the Department of the Environment from the Department of Indian Affairs and Northern Development.

The main objective of the Department as set out in the Estimates is "to promote and undertake programs ... designed to improve the management and sustained economic utilization of the forest, wildlife and inland water resources of the nation". The three major Services that carry out activities designed to meet the Department's objective are: the Environmental Protection Service; the Environmental Management Service; and the Atmospheric Environment Service. The 1978-79 Estimates showed budgeted expenditures of \$267 million and 6,451 authorized person-years for the three Services.

Special characteristics. The Department deals with complex environmental issues which require longer-term planning than most government programs and, as well, demand highly sophisticated scientific and technical support staff and equipment. In addition, departmental jurisdiction and responsibility for initiating action and enforcing regulations often overlap the responsibilities of other federal departments and provincial governments.

Scope of audit. Our comprehensive audit of the Department of the Environment concentrated on its financial and other management control systems and on the systems in place to report to managers, central agencies and Parliament on the Department's activities. In selecting areas for examination, we took into consideration the objectives of the Department, the nature and significance of its expenditures, the sources of its revenue, and the types and value of its assets.

It should be noted that, at the time of our examination, the Department was completing a major two-year internal review of its activities. The results of this "Zero A-Base Review", conducted in co-operation with the Treasury Board Secretariat, will, we believe, make a positive contribution to improving management in the Department.

Financial operations. Our examination of financial operations revealed a number of serious weaknesses in financial management and control. For example, we found that:

- financial reports to senior management and Parliament did not include the operational information needed to permit a clear understanding of the relationship between expenditures made and results achieved;

- there were weaknesses in the documentation of financial policies and procedures;
- financial control procedures were not always adhered to; and
- procedures used to control and report revenue and cost recovery were inadequate, and opportunities to develop other sources of revenue and to extend cost recovery had not been sufficiently explored.

The Department has recognized these weaknesses and has taken a number of corrective actions. These include:

- introducing a new "program activity structure" to provide operational information;
- developing an action plan to complete the documentation and implementation of financial policies and procedures; and
- developing procedures to improve control over financial signing authorities.

Internal audit function. The internal audit function is carried out by the Internal Financial Audit Branch which consists of a Director and three assistants. Most of the audits were conducted under contract by staff of the Audit Services Bureau of the Department of Supply and Services. We examined the mandate for the internal audit function and the way in which audits were being planned, reviewed, reported and followed up.

We concluded that the work of the Internal Financial Audit Branch needs to be reassessed. Its mandate has been restricted to carrying out financial audits, and we found deficiencies in its planning, controlling and reporting activities. In addition, we believe that the Internal Audit Committee has not given sufficient guidance and support to the internal audit function.

Regulatory process for environmental protection. The Department is responsible for protecting and enhancing the quality of the environment. The Environmental Protection Service (EPS) administers the regulatory processes related to this responsibility.

EPS has tried to co-ordinate its environmental protection programs with those of other federal and provincial agencies. The mechanisms for co-ordinating these programs, however, generally have not incorporated appropriate planning, control and evaluation systems and procedures to support EPS in carrying out its regulatory responsibilities.

We observed that there were deficiencies in EPS planning systems for identifying pollution problems and for ranking them according to their severity. We found that EPS, in developing regulations and guidelines to solve pollution problems, had not consistently applied generally accepted techniques for planning and controlling its projects. In addition, it had not established satisfactory management systems to ensure that the national regulations and guidelines which had been developed were uniformly implemented and enforced across Canada.

We concluded that it would be reasonable and appropriate for EPS to measure and report on the effectiveness of its regulatory programs. However, EPS did not have satisfactory systems and procedures for doing so.

Management of research and development. Research and development (R&D) activities are an integral part of the Department's mandate. The Department has not regarded R&D as a separate activity because it considers scientific activities, including R&D, as mission-oriented activities which are carried out to support the attainment of individual program objectives. Expenditures on such activities in the Environmental Services Program of about \$63 million ranked as the sixth largest R&D program expenditure in the Federal Government.

Our review of the Department's R&D activities was designed to assess the adequacy of the systems and procedures for ensuring that the Department manages its R&D activities economically and efficiently. Our audit did not address the technical performance and content of the R&D work itself. Hence, our observations should not be looked upon as a commentary on the scientific quality or output of the Department's R&D activities.

We identified a number of initiatives at various management levels directed towards improving the management of R&D activities and projects. However, the Department's management systems for planning and controlling its R&D activities were weak. Procedures for planning and setting priorities for these activities and for their review were either informal or inconsistently applied. In the Atmospheric Environment Service, the Atmospheric Research Directorate project leaders received inadequate financial control information from that Service's management information systems. The Department had not developed standard performance measures for monitoring R&D projects. Project milestones, task schedules and R&D objectives were not integrated.

Therefore, we concluded that improvements are needed in the Department's systems for planning and controlling its R&D activities before it can be considered to have demonstrated due regard for economy and efficiency in these activities.

Electronic data processing. As well as protecting the environment, another of the Department's important tasks is to collect and disseminate information about it. To assist in this activity, the Department has developed many computerized systems which analyse, process and retain information for long periods of time and generate scientific output relevant to specific users. The Department has approximately 70 computers -- of which three are large-scale -- and is one of the largest users of computers and service bureaux in the Government.

Our review of the Department's electronic data processing (EDP) activities indicated that it did not have formal standards and detailed procedures, either for conducting feasibility or cost-benefit studies on proposed EDP equipment and installations, or for periodically reviewing existing computerized systems. It also did not have a complete set of EDP policies, a long-term EDP strategy or plan, or an accurate inventory of its computers. Although the "request for proposals" that we reviewed appeared to be satisfactory, procedures for preparing feasibility studies were lacking and the studies we reviewed were incomplete. In addition, although information was available on the utilization of large scale computers, the Computing and Applied Statistics Directorate (CASD) was not receiving utilization statistics on the minicomputer installations.

We concluded that improvements are required in planning and controlling the development of information systems and in the periodic review of these systems. Improvements are also required to satisfy the Department that it is planning and acquiring its EDP resources with due regard for economy and that it has the information necessary to ensure the efficient use of its minicomputer resources.

Management of real properties. Real property includes land and specialized buildings owned and maintained by the Department and leased accommodation provided primarily by the Department of Public Works. The original cost of the land and specialized buildings was \$78 million, of which approximately \$16 million represented land. The estimated replacement cost of the specialized buildings was about \$230 million.

A clear overview of all the Department's current or proposed real property activities could only be obtained with considerable difficulty. The Department has imprecisely defined responsibility for various phases of real property management. No specific guidelines existed on how the Facilities Planning Branch, which

is the principal unit entrusted with real property activities, was to perform its role; nor were its functional relationships with other sections of the Department defined.

Long-term planning for real property expenditure was poorly co-ordinated. Some programs were undertaken before reasonable estimates of capital and operating costs had been established. Departmental policies and procedures for managing its real property were incomplete and, in many cases, informal. There were no mechanisms for ensuring that the Department up-dated its procedures promptly to reflect changes in conditions. In certain instances, the information provided to management was not adequate.

We concluded, therefore, that the Department needs to improve its management practices if it is to demonstrate due regard for economy and efficiency in its real property activities. It should be noted, however, that the Department has taken steps to improve the management of its larger facilities. In 1976-77, the Facilities Planning Branch carried out the first cycle of its biennial operational reviews. The Branch concluded that the Department was managing its facilities at least as well as other government departments. The Department has successfully introduced an energy conservation program which allowed it to reduce its energy consumption to a level below that stipulated by the Treasury Board.

Payroll costs management. We found a variety of payroll costs management practices throughout the Department. The magnitude of payroll costs in the Department, the critical role that human resources play in achieving Services' objectives and the semi-autonomous nature of the Services require the uniform application of human resource systems across the Department. In our opinion, the Personnel and Organization Directorate was not providing the necessary direction and co-ordination to ensure this uniformity.

The Department did not have a comprehensive manpower planning system which complemented and was related to its operational and financial planning. Without such a system, it could not be sure that it had the right number or quality of people when and where they were needed. It also could not be certain that it was getting value for money from its expenditures on human resources.

The Department's systems for budgeting, planning, co-ordinating and evaluating training and development activities were incomplete. Therefore, the Department could not determine whether it was delivering its training and development programs economically and efficiently.

The Department is aware of the weaknesses we have identified and, in several cases, has initiated plans for corrective action.

Department of National Revenue - Customs and Excise (Chapter 15)

We are conducting our audit work throughout the Department of National Revenue-Customs and Excise over a three-year period. In our 1978 Report (Chapter 18), we reported on the results of the audit work carried out in the first year of the three-year cycle. That Chapter dealt almost exclusively with the administration of customs import duties and taxes provided for in the legislation related to these functions, as well as with the operations associated with controlling the international movement of people and goods as provided for in a number of other acts.

This Chapter reports on the results of our work done during the second year of the three-year cycle. It deals primarily with the Department's activities for administering those Acts that pertain to excise duties and taxes. Thus, both this and the previous year's reports are concerned mainly with the Department's principal revenue-associated operations.

Overview of Excise operations. The Department of National Revenue has two components - Taxation, and Customs and Excise. A Deputy Minister heads each unit and each operates administratively as an independent department.

The taxes administered by both the Customs and Excise Branches are primarily commodity-oriented; i.e., taxes and duties imposed on the importation and the sale of goods. The Excise Tax Act, with specified exemptions, levies a sales tax on the production, sale or consumption of certain goods manufactured or produced in Canada or imported into Canada. The Act also imposes an excise tax on specific goods such as jewelry, air conditioning equipment and gasoline. The Excise Branch also administers another Act, the Excise Act, which imposes excise duties on domestically manufactured tobacco products, spirits and beer.

The Branch's activities encourage and facilitate compliance by providing information and services that help taxpayers to understand the tax laws and regulations. The Branch must also detect errors made inadvertently by taxpayers as well as instances of fraud, evasion and abuse, and it imposes penalties. For 1979-80 the Excise Branch was allocated 1,555 person-years and \$41.8 million for operating costs, excluding its portion of the Department's general administration costs. It collected about \$6 billion last year.

Scope of audit. Our audit focused on the procedures and practices used by the Excise Branch to control the activities relating to tax administration, enforcement and the collection of and accounting for revenue. We examined the objectives of the Excise Program, the potential for establishing systems to generate performance information and whether the Excise Branch had implemented adequate procedures for measuring performance where it was appropriate and reasonable to do so. Our audit also included a review of the internal audit function and the payroll costs management system for the Department as a whole.

The Excise environment. To place our findings and conclusions in their proper perspective and to help gauge their significance, it is important to look at the environment in which the Excise Branch operates. A number of environmental characteristics must be considered when weighing the cost of introducing or maintaining certain controls against the resulting benefits. These include the following considerations:

- As in the case of other Canadian taxation programs, the Excise Branch administers a voluntary compliance (self-assessment) system.
- Many functions that the Branch carries out demand that its staff exercise high levels of judgment.
- The Branch does not have the final responsibility for determining penalty structures or penalty levels, even though the cost effectiveness of programs, such as taxpayer audits, in acting as a deterrent to non-compliance, depends to some extent on the effectiveness of the penalty system.

Performance information. Even though the Branch has established a number of useful performance measures, these do not compare how much revenue the Branch is actually collecting with a reliable estimate of the amount that it should be able to collect under existing legislation. This information is essential both for Parliament to assess the Branch's effectiveness and for management to make the most appropriate decisions in planning and allocating resources.

For certain activities, such as collecting assessments made on taxpayers, the Branch has developed sufficient performance information to indicate how effective its operations are. In other areas of enforcement, such as audits of taxpayers, the Branch's performance information systems yield important information about the levels of service and the amount and cost of work done. These systems, however, do not provide reliable information on the quality of work.

Data related to the quality and consistency of the work performed must be collected and combined with the other performance information which the Branch now accumulates before such information can be considered adequate for indicating how efficiently the Branch carries out key enforcement activities, such as taxpayer audits.

Revenue control systems. Our audit of the control systems showed that the Branch had provided for the processes necessary to conduct its excise enforcement operations successfully. We concluded, however, that the manner in which certain of these controls were being applied requires substantial improvement before the controls could fulfil their intended purpose of ensuring reliable, efficient audits of consistent quality.

Management was aware of most of the areas which needed review or strengthening and was looking for solutions to problems. In a number of instances, they had begun to conduct reviews or were carrying out programs to correct these weaknesses.

Although managers have been taking these positive steps, we believe that the Branch can and should do much more to bring both performance information and enforcement activities controls to the appropriate level by:

- developing information which those responsible for controlling day-to-day operations can use for detecting emerging problems, and for taking remedial action;
- determining the adequacy of alternative enforcement methods and communicating this information to staff to help ensure consistency, efficiency and effectiveness; and
- elevating and enlarging the supervisory function relating to enforcement activities to a level that involves more than mainly administrative duties, thereby ensuring that the supervisors concerned provide the leadership and guidance that staff needs.

Payroll costs management. During the current fiscal year, the Department is testing its newly-designed Workforce Planning Process. This process provides for development of a Personnel Management Plan as recommended by the Treasury Board Secretariat. The plan will be submitted with the Estimates for fiscal 1980-81. The Department estimates that it will take two years to implement this system in all operating units and to comply fully with the Treasury Board's recommended policy. When fully implemented, the process should link manpower planning with operational and financial planning.

Our review of the Department's efforts to provide effective training led us to conclude that the Department has put in place the mechanisms to identify training needs, to deliver training courses, to evaluate the effectiveness of training and, finally, to report on it. However, the Department has not yet completed the design and the development of the courses which it requires, and identification of individual training needs by supervisors requires strengthening. In addition, the Department has not yet evaluated the results of its training courses by referring to improvements in the quality of the work subsequently done by the staff who attended the courses.

The Department has developed a number of manual and computerized systems to assist in managing its staff. The principal human resource information system is the Manpower Resources System (MRS). Because of delays in processing information through the MRS, regional management has developed other systems to meet its information needs. In April 1978, a departmental team began reviewing management information systems, and one of the new systems being designed is a modified Manpower Resources System, integrated with other human resource information systems.

Internal audit. During our 1978 audit of Customs' revenue systems, we examined the mandate, organization, reporting, planning, staffing and operations of the Internal Audit Group, which serves both the Customs and the Excise Branches. At that time, we recommended a number of improvements. This year, we carried out a review to determine how the group is now meeting the challenges imposed by its comprehensive mandate and to determine whether the nature, timing and extent of our audit work could be altered by the internal audit of the Excise Branch's systems and operations.

We noted that, over the last three years, the Internal Audit Group had not completed audits of the two major regions that account for the bulk of excise revenue. Accordingly, we came to the conclusion that we could not alter the scope, nature and timing of our audit to any significant extent.

At the same time, improvement has occurred over the last year. The group has developed an audit manual which should contribute to more effective auditing. It has done much to lay the foundation for computer audit by documenting methodology, refining audit plans and by producing clear and improved audit reports. However, if the internal audit group is to fulfil its mandate successfully, further improvements are needed. It must take advantage of current methodology, identify key areas of management control for audit, integrate this work with other audits, establish a methodology unique to the Department's needs, where appropriate, and train or obtain appropriate staff to conduct the work.

Department of Public Works (Chapter 16)

The Department of Public Works (DPW) provides accommodation and related realty services to government departments and agencies. These services include construction of buildings, purchase and disposal of land and other real property, rental of premises, and the maintenance, improvement and operation of properties owned or leased by the Government of Canada. In addition, on request, the Department supplies government departments and agencies with technical and construction management services for capital projects. DPW is also responsible for providing marine facilities and roads, bridges and public utilities as required by other federal government programs.

As set out in the Estimates, gross expenditures for 1978-79 were \$900 million, with authorized person-years totalling 9,463. In addition, DPW was provided with approximately \$260 million by other government departments. Five hundred and four person-years were also chargeable to other departments.

Scope of audit. The first stage of our comprehensive audit of the Department centred on those systems used by management to plan, evaluate, control and report the activities of the Department in providing accommodation and other services to Government. This included an examination of the following areas:

- departmental role and objectives;
- operational planning;
- control and reporting;
- payroll costs management;
- management information system;
- internal audit; and
- reporting to Parliament.

The second stage of the audit involved an examination of selected major general purpose capital projects carried out by DPW.

Departmental role and objectives. We found that, although a clear role and objectives are stated in the Estimates, the Department has not been restricted to this role and to these objectives. For example, internal documentation and submissions to Treasury Board and a variety of commissions and task forces referred to such matters as the need for appropriate federal presence, urban renewal, heritage policy, and regional economic stimulation. These objectives, which the Department has described as requirements imposed by government policy or accepted practice, go beyond the service role described for the Department, both in the Estimates and in governing legislation. Our examination of

capital projects indicated that these objectives have not been defined as precisely as possible. This lack of clarity and precision results in information being submitted to Parliament that may be incomplete and may not fully disclose the range of results which are expected to be achieved through use of the funds being appropriated.

Operational planning. The Department uses two principal systems in planning for the acquisition of space. The Planning and Control System is used to plan the Department's internal resource requirements based on expected project workload. The Project Delivery System is used in its earlier stages for detailed planning and justification of capital acquisition projects. Later stages are used for actual delivery, operation and post-evaluation.

In order to be fully effective as a foundation for departmental planning and forecasting, the Planning and Control system must be linked to an extensive data base of cost, inventory and other operating data. This data base has not yet been fully developed. Furthermore, actual expenditures were not being systematically compared to plans or budgets to determine the quality of the original plans, nor could changes in the level of funding be related to changes in resources required for individual projects.

We found that, in concept and in sub-systems, the Project Delivery System was adequate; however, full benefit cannot be derived from the System without accurate and relevant cost data. In addition, although the Department has an excellent Real Estate Investment Analysis Model (REIAS), we found that it lacked a reliable investment analysis process because data input was unreliable.

Occupancy costs for many of the projects studied were considerably higher than comparable private sector costs at the time the decision was made to build. We concluded that three of the nine projects (North York, Barrie and Guysborough) showed rental rates consistent with prevailing market rental rates. One project (Guy Favreau Complex) was excluded from our analysis because it was still under construction.

The remaining five projects (Place du Portage, Phases I, II and III, C.D. Howe Building, and Government of Canada Building, Calgary) showed rental rates that were not consistent with prevailing market rates at the time decisions were taken to build.

We concluded that the management of eight of the nine projects examined did not demonstrate a reasonable standard of due regard for economy.

Control and reporting. Control over the capital acquisition program was inadequate. We found that cost data were incomplete because expenditures for professional and technical staff engaged in design and construction supervision activities were not included in the costs of the projects. Budgetary reports were used to exercise control over cash flows to prevent over-spending of funds. The reports did not compare actual to budgeted expenditures with explanations of variances related to performance.

We found no case where full disclosure of the total estimated costs was made at the beginning of any project. Costs borne by government bodies other than the Department of Public Works that were involved in projects in a limited or specific way were not disclosed.

Budgetary controls over operations and maintenance were inadequate. A cost accounting system, including the basis for developing unit costs, did not exist in the Department.

Payroll costs management. The Department did not know with a sufficient degree of accuracy how many people it required to carry out its activities efficiently and economically. Manpower planning to date has been incremental in nature, with any human resource analysis being undertaken primarily for the justification of additional resources.

No uniform method was used to identify individual, group and departmental training needs. The performance appraisal process, a major input in identifying training needs, was inadequate for this purpose and was carried out inconsistently. An internal review of this process has resulted in extensive revision, and a new system called the Performance Management Process has been implemented by the Department.

Despite significant expenditure in the area of human resource information systems, reports from the automated systems were incomplete, inaccurate, and did not have the confidence of users. Users were maintaining manual "back-up" systems.

Management information system. Based on our examination of the Department's management information system, we concluded that:

- the accounting systems in place were cumbersome, prone to error, and did not generate the timely and reliable information that managers require. This has led to a costly and inefficient duplication of systems;

- the Department was burdened by a proliferation of management reporting procedures that generated a flood of information, most of which was incomplete or unreliable for control purposes;
- there was no evidence of a co-ordinated approach to providing systems to produce needed information;
- information that was provided was not correct, sufficient or timely, and irrelevant data had not been filtered out; and
- there was no cost accounting system.

Internal audit. Although the Management Audit Group was at an early stage in its development, we concluded that it had made significant progress in establishing an audit approach, methodology and procedures. The group was competently directed and administered, and had a positive attitude toward its responsibilities.

Reporting to Parliament. In our 1978 Report, we considered the question of charging users for accommodation services. Because we believe that the proposals advanced in that Report offer significant advantages over other alternatives, we developed illustrative Estimates that were based on our proposed method of charging users for accommodation services. These illustrative Estimates are discussed in Chapter 7 of the 1978 annual Report.

Department of Supply and Services -- Services Administration (Chapter 17)

The Department of Supply and Services is divided into two Administrations, one for Supply and one for Services. Our audit focused on the Services Administration (DSS-Services) which provides a broad range of management and administrative services to the Government as a whole as well as to individual departments and agencies. DSS-Services is also required to fulfil the statutory responsibilities of the Receiver General for Canada, as set out in the Financial Administration Act.

Under the Deputy Minister of Services, who is also Deputy Receiver General for Canada, DSS-Services is organized into three Sectors -- Operational Services, Management Services, and Planning and Finance. To finance its activities during the year ended March 31, 1979, DSS-Services received \$105 million by parliamentary appropriation and \$41 million as revenue for services provided. It accounted for 5,500 person-years.

Scope of audit. In our audit, we addressed the various management control and reporting processes used within DSS-Services in its role as a common service agency, and examined internal controls in the Receiver General function. We concentrated on 10 major study areas:

- procedures to measure and report on program effectiveness;
- planning and control;
- payroll costs management;
- management of electronic data processing;
- efficiency measurement in the Operations Branch;
- internal audit;
- financial controls over payroll deductions for public service payrolls;
- financial controls over the Public Service Superannuation Accounts;
- internal controls in the Receiver General function; and
- reporting to Parliament.

Procedures to measure and report on program effectiveness. The objective of DSS-Services as stated in the Estimates is:

"To provide in the most economical manner to the government as a whole and to client departments and agencies, a broad range of administrative management and advisory services in order to improve government efficiency and reduce costs."

In assessing the clarity of the stated objective, we found that its meaning may be subject to two interpretations. DSS-Services has been operating within an interpretation under which it is considered to have achieved its objective by meeting its statutory duties and by conducting its internal departmental operations in an efficient and economical manner.

An alternative interpretation of the wording of the objective is possible when no reference is made to DSS-Services' statutory duties as a common service agency under the DSS Act and those of the Receiver General under the Financial Administration Act. Such an interpretation would imply that, for each service it provides, DSS-Services needs to ensure that it provides the service more efficiently and at a lower cost to the Government as a whole, than would any other source. DSS-Services would thus need to focus its effectiveness measurement and reporting procedures on the operations of other departments as well as on its own operations.

Consistent with its view of its duties, DSS-Services has focused its measurement and reporting procedures on its internal operational concerns. DSS-Services stated that it has received advice from the Department of Justice that DSS-Services does not have the statutory authority to enforce the establishment of procedures to measure and report on whether its services, mandatory or optional, improve efficiency and reduce costs on a government-wide basis.

The usefulness of the Estimates as an instrument of accountability is diminished because the two interpretations of the present wording of DSS-Services' objective tend to make the objective imprecise.

Planning and control. We found that most components of a sound planning process were in place; however, there is a need to complete the corporate level strategic plan which is being developed. This plan will include a definition of the role of DSS-Services and its objectives and long-range goals. In addition, it should ensure that, wherever possible, the long-range goals are measurable. We also found that long-term and short-term planning had been integrated with financial planning only to a limited extent.

DSS-Services has improved its control systems during the last five years. In 1975, it implemented a cost accounting system to control the costs of its services. Performance measurement systems were introduced in 1973 and underwent a major revision in 1977. In spite of these developments, control systems require further improvement. In the cost accounting system, for example, we found that the costs of specific services rendered to departments were not accurate because allocations of indirect costs were unreliable.

Payroll costs management. In the last two years, DSS-Services has introduced several improvements in managing its human resources; however, in spite of these efforts, we found that the processes and techniques used to determine and justify the manpower requirements of the Operational Services Sector, employing about 70 per cent of the personnel in DSS-Services, were still incomplete. The work standards used to translate workload forecasts into manpower requirements were based on historical data and there was little analysis to determine whether such standards were appropriate. DSS-Services recognizes most of these problems and is examining the feasibility of using engineered work standards in certain areas of the Operational Services Sector.

DSS-Services has introduced several improvements in managing its training and development activities and intends to complete the implementation of new policies by 1980-81. Because the improved systems have not yet been fully introduced, there are still some weaknesses in this area, such as in the extent to which the performance appraisal process is used for identifying training and development needs.

The current departmental Personnel Information System serves both the Supply and Services Administration of DSS. We found that users perceived the system to be inaccurate, untimely and incomplete. The absence of an adequate information system has led to the creation of duplicate systems and has hindered personnel management. DSS-Services has recognized the problem and a new system is being developed.

Management of electronic data processing. DSS-Services is one of the largest users of electronic data processing (EDP) in Government. In 1978-79, it reported EDP and EDP-related expenditures of \$37 million and employed some 1,200 person-years in this activity.

In general, we found that the major data centres provided timely and reliable services and that operational management and control appeared adequate to ensure that EDP systems produce the intended results. However, we noted certain weaknesses in the management and control of EDP systems development projects and in the planning for new systems and equipment. Better co-ordination and more effective systems planning and development are needed to improve the economy and efficiency of EDP in DSS-Services.

Efficiency measurement in the Operations Branch. We found that the Performance Measurement System (PMS) used in the Operations Branch needs improvement before it can be used to measure efficiency adequately. The PMS standards did not include all clerical tasks performed in a given activity and were based on a self-logging or historical-actual basis. This situation tends to perpetuate any inefficiencies that may be built into the procedures and may cause these inefficiencies to be incorporated into the standards. DSS-Services had not adequately measured the production capacity of its District Services Offices. This type of information would provide a better basis than exists at present for decisions to consolidate Offices in order to improve operational efficiency.

Internal audit. DSS-Services has carried out extensive audit activity, particularly in the District Services Offices, and the Internal Audit Branch was taking steps to increase its audit coverage. For example, the Branch instituted an EDP audit function in 1976 and developed a "composite audit" concept in 1978, combining compliance, financial and management audits in one operation. However, we found an absence of systems-based auditing of the major computerized systems DSS-Services operates. Although we could rely only in a limited way on the internal audit activity for the current fiscal year in determining the nature, timing and extent of our work, the plans being developed at the present time should lead eventually to a significant reduction in the audit work required from our Office and to an expansion of the role of internal audit in the management process.

Financial controls over payroll deductions for public service payrolls. Our audit of deductions in the Central Pay Division showed that individual responsibilities were not clearly defined. We further observed that most procedures were not adequately documented. Separation of responsibilities and division of duties for preparing payment data and for making payments were not being maintained as required by the Treasury Board Guide on Financial Administration.

Financial controls over the Public Service Superannuation Accounts. At a reported \$10.1 billion, the Public Service Superannuation Accounts represent one of the largest liabilities in the Public Accounts of Canada. DSS-Services is responsible for several administrative aspects of superannuation activities; however, the Treasury Board looks after all policy matters and lays the annual report on administration of these accounts before Parliament. As well, the Department of Finance is responsible for interest credits, salary increase credits, adjustments on the basis of actuarial reports, and tabling the actuarial reports in the House.

With such distinct and separate responsibilities, there is no focal point of accountability for administering and directing all Public Service Superannuation Accounts. Largely because there is no focal point, several accounting and administrative matters have not been adequately addressed. For example, we found that no mechanism existed to ensure the accuracy of contributions from "Public Service Corporations". There are 44 active participating Public Service Corporations (entities listed in Schedule A of the Public Service Superannuation Act, including boards, commissions, Crown corporations, etc.) with 26,000 employees.

Internal controls in the Receiver General function. We found a number of internal control weaknesses in the way DSS-Services performed the function of the Receiver General. These weaknesses did not warrant a qualification of our audit opinion on the Public Accounts; however, they require prompt attention and correction.

Part of the Receiver General function is to issue approximately 115 million cheques annually, based on requisitions from departments and agencies. We found that DSS-Services carried out this activity promptly and accurately, although procedures to verify signatures authorizing disbursements were cumbersome, difficult to apply, and at times inadequate, largely because of volume. Because of these control weaknesses, cheques could be, and have been, issued by the Receiver General on insufficient authority.

Reporting to Parliament. We believe that the operations of management and advisory services provided by DSS-Services have not been adequately disclosed to Parliament.

To illustrate the kinds of information that Parliament could receive, we prepared from data readily available through DSS-Services' internal reporting systems a number of financial statements and supporting exhibits. These illustrative Estimates have been given to DSS-Services and are set out at the end of Chapter 17 in the Report.

Follow-up of previous reports on inadequate controls over payroll expenditures.

In following up our findings concerning inadequate controls over payroll expenditures set out in each of our annual Reports since 1975, we found that the role of DSS-Services in exercising financial control over these expenditures in relation to that exercised by departments and agencies still requires clarification. The Treasury Board Policy Circular No. 1977-37, issued in July 1977, established that control over payroll expenditures is a departmental responsibility and that DSS-Services' role in this process is one of service. This policy is subject to phased implementation beginning April 1, 1979, and the approach to its implementation by the Treasury Board Secretariat has expanded from co-ordination of departmental implementation to include training and monitoring. The immediate effort includes development and implementation of a comprehensive training program for personnel involved in pay in departments and agencies.

It appears from the foregoing that the responsibility for financial control is in the process of being defined. In practice, however, departments, agencies and DSS-Services are in a transition period. Many of the mechanisms to discharge this responsibility are not yet in place and control over payroll expenditures will continue to be inadequate until they are.

Follow-up of previous report on financial reporting. As part of the Receiver General function of operating the Central Accounting System, some 34 million pages of financial reports are being issued annually to departments and agencies. Our 1975 annual Report (paragraph 10.26) recommended a study to improve the timeliness and accuracy of financial reporting. The Treasury Board began such a study and issued a report in 1977. Since then, the Office of the Comptroller General has taken over the responsibility for developing policies, standards and guidelines for financial reporting systems, which it believes to be a departmental responsibility.

Since 1975, DSS-Services has made significant improvements in providing faster and more accurate reporting services. It has taken a further step and developed a more sophisticated financial control system (FINCON), which it believes will assist in providing more timely financial information. At present, FINCON is being implemented in three departments.

OTHER AUDIT OBSERVATIONS

Observations on the Financial Statements and Operations of Crown Corporations and Other Entities (Chapter 18)

Chapter 18 comments on significant qualifications and other matters included in our audit reports on the annual financial statements of Crown corporations and other entities. The Auditor General audits and reports on the annual financial statements of 34 of the agency and proprietary Crown corporations listed in Schedules C and D to the Financial Administration Act and also audits and reports on the annual financial statements of 50 other separate entities. These include departmental Crown corporations listed in Schedule B to the FAA, and boards, commissions, territorial governments and their agencies, separate funds and special accounts, such as the Exchange Fund Account, the Canada Pension Plan Account and the Unemployment Insurance Account.

The observations in our reports on Crown corporations and other entities set out in Chapter 18 are listed below:

- *Airports Revolving Fund* -- Failure to record termination benefits.
- *Airports Revolving Fund* -- Uncertainty of realization of capitalized development costs.
- *Atomic Energy of Canada Limited* -- Uncertainty as to disposition of the La Prade heavy water plant.
- *Atomic Energy of Canada Limited* -- Uncertainty as to adequacy of provision for losses on Argentine contract.
- *Canada Employment and Immigration Commission* -- Benefit and Overpayment System.
- *Canada Pension Plan* -- Funding of the Plan.
- *Canadian Arsenal Limited* -- Failure to capitalize fixed assets and record depreciation.
- *Canadian Commercial Corporation* -- Possible effect on financial position of uncertain outcome of litigation.
- *Canadian Dairy Commission* -- Uncertainty concerning recording of levies.
- *Canadian Patents and Development Limited* -- Inadequacies of the system to verify royalties.
- *Jacques Cartier and Champlain Bridges Incorporated* -- Dependency on future parliamentary appropriations.

- *Loto Canada Inc.* -- The Loto Select project.
- *National Capital Commission* -- Failure to record depreciation.

Other Audit Observations (Chapter 19)

Introduction. In recent years, the annual Report chapters on other audit observations have reported on three types of matters:

- observations on our audit of the Oil Import Compensation Program conducted at the request of the Governor in Council under Section 11 of the Auditor General Act;
- observations on matters raised in previous Reports which have not been adequately dealt with by the Government; and
- observations made for the first time which have not been included elsewhere in the Report.

The existing follow-up practices require significant time and effort from this Office, the Office of the Comptroller General and the Standing Committee on Public Accounts. In this Chapter, we propose a co-ordinated policy to streamline the process and reduce duplication of effort. A description of this proposal, set out fully in Chapter 19, follows. The rest of this portion of the Conspectus identifies the observations of the Auditor General reported under Section 11 and Section 7 of the Auditor General Act.

Follow-up Policy: A Suggested Approach. The increasing interest of Parliament in improving management control in Government has resulted in extensive follow-up work by the Public Accounts Committee, the Office of the Comptroller General and this Office. The following proposals are intended to launch discussion among the Public Accounts Committee, the Office of the Comptroller General and this Office to achieve an efficient, co-ordinated approach to the follow-up of audit observations. They are not meant as a substitute for any independent monitoring action that the Public Accounts Committee and the Office of the Comptroller General may wish to take at their respective levels of responsibility.

Follow-up Procedures: Government-wide Audit Issues:

- Within a reasonable time after the tabling of each Report of the Auditor General, the Comptroller General would send to the Public Accounts Committee written commitment to a plan of corrective action -- with deadlines -- for those deficiencies agreed upon.
- If the Government disagrees with our findings and/or recommendations, the written response to the Public Accounts Committee should give the reasons.
- Annually, the Comptroller General would send the Public Accounts Committee follow-up progress reports, with a copy to this Office to be

included in the Auditor General's annual Report. The absence of adequate progress on a particular problem would be disclosed in the annual Report.

Follow-up Procedures: Audit Observations on Individual Organizations:

- If the notice of a weakness occurs in a comprehensive audit chapter, the department would normally include its formal response and action intentions at the end of the chapter.
- In all other cases where we set out audit observations in the Report, the deputy head would provide a written response incorporating deadlines for corrective action and would send the response to the Public Accounts Committee and to this Office.
- At least annually, the deputy head concerned would report progress to the Public Accounts Committee on each matter raised in the Auditor General's annual Report. Where progress reports are not made or corrective measures appear inadequate, we would disclose this in the next annual Report.

Follow-up Procedures: Recommendations of the Public Accounts Committee

Depending on the circumstances, responsibility for taking action on recommendations made by the Public Accounts Committee in its reports to the House of Commons rests with central agencies, individual departments, agencies or Crown corporations, or this Office. During the spring of 1979, the Committee's Clerk, assisted by a research officer of the Library of Parliament, obtained comments from the appropriate organizations on actions taken on all the recommendations the Committee made in its formal reports during the 30th Parliament. The results of this survey indicated that in many cases the Committee's recommendations had not been acted upon with appropriate despatch.

The Committee may wish to give consideration to ways of improving the quality and timing of response to its formal recommendations. One approach would be to establish a procedure requiring the Government to table a response to each Committee report within a stated period of time after tabling in the House. Alternatively, such responses could be tabled with the Committee itself. A similar procedure would apply for recommendations requiring action by this Office.

Disclosure

In all cases, the criterion for disclosure as an audit observation is the Auditor General's judgment of the significance of the matter to Parliament. If a matter is judged unequivocally to be of significance to Parliament, it will be reported as an audit observation in the year it is noted by this Office. It would not be deferred until the planned reporting year for that entity under the comprehensive audit and reporting cycle.

Observations Reported Under Section 11 of the Auditor General Act

Oil Import Compensation Program. Section 11 of the Auditor General Act permits the Auditor General to inquire into and report matters in response to requests from the Governor in Council. In 1974, responding to such a request, this Office undertook a continuing inquiry into the administration of expenditures of the Oil Import Compensation Program. The following significant items have come to our attention during the course of our current examinations:

- *Special freight compensation for cargoes lightened in the Caribbean en route to Canada.* In the 1978 Report, it was noted that \$2.2 million of excessive freight compensation had not been recovered as the Energy Supplies Allocation Board was awaiting the outcome of legal action taken by one of three oil companies involved. The Board has won two legal actions but expects a further appeal to be made. As a result, recovery has yet to be initiated on the \$2.2 million overpayment made during 1974 and 1975.
- *Established method of deducting oil exports changed for one oil importer.* When imported crude is subsequently exported, the oil importer must refund the oil import compensation previously received. We noted one case where the Petroleum Compensation Board allowed an oil importer to carry forward an excess of exports over imports of one month to the following month for deduction from new compensatory crude imports. Because of a change in the rate of compensation at the time of this transaction, the position adopted by the Board resulted in payment of \$3 million more in compensation to the oil company.
- *Control of oil exchanges.* In 1978-79, the National Energy Board approved a number of exchanges of western Canadian crude oil and crude oil imported into eastern Canada. The effect of these exchanges is that crude oil may be exported to the United States from western Canada without payment of the applicable export charge if a similar quantity of crude oil is imported into eastern Canada without the receipt of import compensation. Procedures have been developed by the National Energy Board to ensure that the required amount of replacement crude oil is imported into eastern Canada, but the Petroleum Compensation Board's staff have not developed procedures to ensure that oil import compensation has not been paid on these replacement crude imports.

Observations Reported Under Section 7 of the Auditor General Act

Section 7(2) of the Act requires the Auditor General to call attention in his annual Report to anything he considers to be of significance and of a nature that should be brought to the attention of the House of Commons. Matters which the Auditor General deems significant and which are not reported in government-wide studies in Part 1 of the Report, or in the departmental and agency comprehensive audit chapters in Part 2, are reported in Chapter 19. These are:

- *Acquisition of Radio Engineering Products Limited as satisfaction for debts to the Crown* (raised in previous Reports).
- *Questionable aspects of investment in jointly-owned and controlled company* (Department of Regional Economic Expansion).
- *Inadequate procedures for acquisition of broadcast stations.*
(Canadian Broadcasting Corporation),
- *Inadequate control over fixed assets.*
(Canadian Broadcasting Corporation),
- *Inadequate control over Inshore Fisheries Rehabilitation Program.*
(Department of the Environment),
- *Improper charges to 1978-79 appropriations.*
(Department of Indian Affairs and Northern Development),

APPENDIX A
COMPREHENSIVE AUDITING CRITERIA

COMPREHENSIVE AUDITING CRITERIA

Financial Controls (Chapter 3)

The Role of the Comptroller General of Canada

To provide leadership for the financial function, the Comptroller General should:

- *recommend and interpret government financial policies, directives and guidelines in the area of financial management and control;*
- *set disclosure standards for the Estimates, Public Accounts and departmental annual reports;*
- *report to ministers on the spending plans and performance of departments and agencies, and on the adequacy of the supporting expenditure control systems; and*
- *identify the requirements for financial skills and actions needed to satisfy them.*

Departmental Comptrollers

To support the deputy head effectively and to carry out the government-wide financial policies recommended by the Comptroller General, the departmental comptroller should:

- *report directly to the deputy head and be a member of the senior management committee;*
- *have responsibility for reporting to the deputy head on departmental spending in relation to plans, for budget preparation and control systems and for cost and other performance measurement systems; and*
- *be selected by the deputy head from candidates approved by the Comptroller General, and be appraised, in part, against goals agreed to by the Comptroller General.*

Estimates and Other Budgetary Processes

To provide a sound base for review and control of expenditures by management, the Government and Parliament, the Estimates and other budget processes should:

- *establish objectives and expenditure limits or guidelines before detailed budgeting begins;*
- *produce explicitly in operational plans and budgets the expected performance to be achieved and the estimated costs of each responsible manager;*

- *facilitate review of revenues as well as expenditures; and*
- *include adequate review, documentation, training and procedural controls to ensure the quality of the information.*

Budgetary Control and Financial Reporting Systems

To help ensure that the intentions of Parliament and the Government are carried out, budgetary control systems should be set in place and managed to:

- *prevent parliamentary and government spending authorities from being exceeded; and*
- *compare and report planned and actual costs and performance within the fiscal year.*

Accounting Systems

To satisfy both departmental and central agency needs, accounting systems should:

- *be a departmental responsibility;*
- *satisfy managers' needs for complete and timely reporting of costs and performance; and*
- *provide for the essential requirements of central agencies as a by-product of these systems.*

Control of Transactions and Records

To help ensure the completeness, accuracy and authority of financial transactions and of systems and information, all financial and financially-related systems should have:

- *an appropriate segregation of authorities and of duties;*
- *controls established as early as practicable in the system; and*
- *clearly documented evidence that all control functions are performed.*

Reporting to Parliament (Chapter 4)

Criteria for Useful Reporting

To be useful, information reported in the Estimates and Public Accounts should be:

- *relevant*
- *complete*
- *comparable*
- *understandable*
- *objective*
- *reliable*
- *timely*

The Form and Content of the Estimates

To satisfy widely accepted reporting requirements, the revised Estimates should:

- *give an overview in a consolidated volume of the Government's expenditure plans;*
- *provide departmental Estimates volumes compatible with the consolidated volume but flexible enough to display unique departmental activities;*
- *display a balanced analysis of government spending plans, integrating statutory authorities, appropriations for loans, investments and advances, and all other appropriations;*
- *provide functional, program and activity information relating costs to purposes;*
- *give activity information down to the level of detailed projects and processes for which both cost and performance information can be developed;*
- *describe the contribution of each program component to the immediate, intermediate and ultimate objectives of the program;*
- *show how responsibility for activities has been assigned;*
- *provide financial and performance information by organizational responsibility, wherever this cannot be reliably explained through the activity structure;*
- *summarize object-of-expenditure information in the Consolidated Estimates, and provide standard and line objects in departmental Estimates;*

- *display personnel expenditures, grants and contributions, and capital expenditures in appropriate detail;*
- *provide supplementary analyses, showing the total costs of selected activities involving more than one department;*
- *include performance information in quantitative or narrative form;*
- *fully cost program outputs;*
- *separately provide information comparing requested spending authorities and forecast expenditures;*
- *give additional historical comparisons and future projections, along with appropriate explanations of trends and assumptions; and*
- *disclose "tax expenditures" and their effect on comparative data.*

The Form and Content of the Public Accounts and Annual Reports

To reflect widely accepted reporting attributes, the Public Accounts should:

- *have a consolidated volume containing the financial statements of the Government of Canada, information like that in the Consolidated Estimates, and such other summary information as may be appropriate; and*
- *provide separate departmental annual reports containing accounts consistent with and expanding on the Estimates, signed by the deputy head and the departmental comptroller, and reporting actual data versus planned performance and expenditures, with explanations of variances.*

Reliability of Information in the Estimates and Public Accounts

To help ensure the quality of the Estimates and Public Accounts, information should:

- *originate with the operational goals and information systems of managers;*
- *be based on policy objectives communicated clearly and in a timely fashion to all managerial levels involved in planning expenditures;*
- *state assumptions in the Estimates and review them in the Public Accounts;*
- *be based on comprehensive cost-based accounting systems;*

- *be based on performance information systems having controls equivalent to those over financial information systems; and*
- *state program objectives and sub-objectives realistically in measurable terms, specify detailed results and permit costs to be compared with results.*

Attest and Authority (Chapter 5)

Attest

To show the financial transactions and financial position of the Government of Canada, summary financial statements should be provided which are:

- *comprehensive, including summary financial information on all government activities;*
- *complete, providing all the information needed for them to be understood; and*
- *prepared in accordance with generally accepted and conceptually sound accounting principles appropriate for government.*

Authority

Compliance with authorities requires that:

- *authorities be identified and policies and procedures for compliance be established, documented and communicated;*
- *responsibility for carrying out these policies and procedures be assigned to qualified personnel;*
- *procedures and controls be established to monitor, detect and report instances of non-compliance; and*
- *compliance with authorities be subject to regular internal audit.*

Management Controls (Chapter 6)

Payroll Costs Management

To achieve good manpower planning, managers should:

- *determine manpower requirements from operational objectives and work plans;*

- *forecast future availability of current manpower;*
- *develop action plans to meet manpower requirements;*
- *integrate manpower planning with other management functions; and*
- *ensure that implementation of action plans is the responsibility of designated personnel and is monitored.*

To achieve value for money in training and development, managers should:

- *clearly define and communicate responsibilities for training and development;*
- *identify training and development needs;*
- *plan training and development activities and control their implementation; and*
- *evaluate training and development activities.*

To properly support management planning and control processes, human resource information systems should:

- *meet the needs of the users;*
- *be designed and operated in an economical and efficient manner; and*
- *comply with central agency regulations, guidelines and directives.*

Planning Capital Acquisition Projects

To control the planning and acquisition of major capital projects, management should:

- *clearly define and communicate responsibility and accountability;*
- *support requests for funds with accurate and complete documentation;*
- *base final approval on full information;*
- *properly control project implementation; and*
- *review completed projects.*

Measuring and Increasing Efficiency

To help control the efficiency of work done, performance measurement systems should:

- *use relevant and accurate measures of performance;*
- *compare performance to a standard;*
- *tailor reports to management needs;*
- *use performance data to achieve productivity improvement; and*
- *keep productivity measures and reports current.*

Evaluating Effectiveness

To measure and report the effectiveness of programs, procedures should be in place which:

- *specify program objectives and effects as precisely as possible;*
- *identify program objectives and effects that can be measured;*
- *reflect the state of the art and are cost-justified;*
- *report the results of effectiveness measurement; and*
- *employ evaluations to increase program effectiveness.*

Comprehensive Internal Auditing

To be comprehensive and effective, the departmental internal auditing function should:

- *provide senior management with a continuing, independent appraisal of all aspects of a department's activities;*
- *ensure through good audit planning that all activities of the department are identified, potential audit areas are ranked in order of priority, and appropriate audit objectives are determined for each area selected for audit;*
- *have an organizational status that will permit it to report objectively and effectively on any operation or activity of the department. Its responsibilities should be clearly communicated in a mandate from the deputy head that visibly demonstrates his support;*
- *have sufficient professionally competent staff and other resources to carry out its responsibilities;*
- *define appropriate standards of performance and apply them in each audit assignment;*

- *document the results of the audit in a formal report to provide a constructive vehicle for change, discuss it with the managers affected and present the report on a timely basis to the deputy head and the audit committee; and*
- *have the leadership and support of an audit committee composed of senior management and suitably qualified persons from outside the department to provide additional objectivity. Preferably, the deputy head or a person of equivalent stature from inside or outside the Public Service should chair the audit committee.*

Electronic Data Processing Controls (Chapter 7)

Improving the Management of EDP Systems

To ensure effective use of EDP resources, management of each department should:

- *develop EDP strategic plans that document assumptions about changing requirements and technology, identify the best approach to using EDP resources, and provide objectives which can be measured; and*
- *periodically evaluate all major EDP systems.*

To ensure efficient use of EDP resources, management of each department should:

- *specify quality standards for each type of EDP service provided;*
- *properly cost each type of EDP service;*
- *require users and systems designers to justify the level of service requested; and*
- *use performance data to compare performance to standards set both inside and outside the Government.*

To ensure economical use of EDP resources, management of each department should:

- *evaluate development or acquisition decisions in relation to an approved strategic plan;*
- *justify major commitments by a feasibility study;*
- *apply project control throughout the implementation of new systems; and*
- *formally accept the resulting operational systems after implementation.*

Improving Controls in EDP Systems

To ensure that information systems are well controlled, management of each department should:

- *comply with control standards defined and published by a central agency for the installation and operation of EDP systems;*
- *ensure that financial officers are adequately trained to recognize and discharge their control responsibilities; and*
- *ensure that internal audit verifies that systems meet management's needs and comply with regulations and control standards.*

To protect EDP facilities and information, management of each department should:

- *classify all data in terms of the security level required for sensitivity and for protection from loss;*
- *provide protection against loss in the most cost-effective way for each category of data;*
- *provide protection against access consistent with the level of sensitivity; and*
- *ensure that physical security is at the level required for the most sensitive data that may be accessed.*

APPENDIX B
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Report of the Auditor General of Canada to the House of Commons

Fiscal Year Ended
March 31, 1979



Report of the
Auditor General of Canada
to the House of Commons

Fiscal Year Ended
March 31, 1979



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AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

The Honourable James A. Jerome, Q.C., M.P.,
Speaker of the House of Commons.

I have the honour to transmit herewith my Report to the House of Commons for the fiscal year ended March 31, 1979, to be laid before the House in accordance with the provisions of Section 7(3) of the Auditor General Act, 1976-77, c. 34.



J.J. Macdonell

OTTAWA, December 4, 1979

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REPORT OF THE AUDITOR GENERAL
TO THE HOUSE OF COMMONS
FOR THE FISCAL YEAR ENDED MARCH 31, 1979

INTRODUCTION

The principal functions and responsibilities of the Auditor General of Canada are set out in the Auditor General Act, 1976-77, c. 34, which came into force August 1, 1977. His responsibilities in respect to those Crown corporations for which he has been appointed auditor are set out in Sections 76 to 78 of the Financial Administration Act, R.S., c. F-10. The Auditor General Act is included as Appendix A to this Report and the relevant sections of the Financial Administration Act as Appendix B.

In compliance with Section 7 of the Auditor General Act, my Report for the fiscal year ended March 31, 1979, is presented herewith.

My examination included general reviews of the accounting procedures and such tests of accounting records and other supporting evidence as were considered necessary in the circumstances. My staff was provided with all the information and explanations required. I should like to express my appreciation and that of my associates in the Audit Office for the co-operation extended to us by officials of departments, agencies and Crown corporations.

The financial statements of the Government of Canada for the fiscal year ended March 31, 1979, which have been prepared by the Receiver General for Canada in accordance with the provisions of Section 55 of the Financial Administration Act and appear in Volume I of the Public Accounts of Canada, have been examined by me as required by Section 6 of the Auditor General Act. Last year, these statements and my opinion and observations thereon were reproduced as an appendix to my Report. At the time this year's Report was sent for printing, however, the Public Accounts of Canada for 1979 were not available in final form.

MATTERS OF SPECIAL IMPORTANCE AND INTEREST

MATTERS OF SPECIAL IMPORTANCE AND INTEREST

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MATTERS OF SPECIAL IMPORTANCE AND INTEREST

Introduction

1.1 In this first Chapter of my first annual Report to the House of Commons in the 31st Parliament and my final report as Auditor General, I propose to pursue the following themes:

- the current status of the key government-wide recommendations that I made to Parliament in my last four annual reports (1975-78);
- the key issues that must be addressed if Parliament -- and the Government itself -- are to have the necessary assurance that effective control of the public purse has been restored and that public funds and the human and physical resources of government are being managed well with due regard to economy, efficiency and effectiveness;
- the key elements of an overall action plan for the Government of Canada to ensure that a fully satisfactory government-wide system of financial management, control and accountability is being implemented and will be operating effectively within a reasonable period of time;
- the sort of human and financial resources needed to give such a plan the priority it deserves and to prosecute it with vigour; and
- how the Office of the Auditor General can give maximum service and assistance to Parliament in the 1980s and, through Parliament, to the taxpayers.

1.2 These themes recur throughout this Chapter and Part I of this Report. In this Chapter, I describe significant actions taken during the 30th Parliament to restore parliamentary control over the public purse. I also report on the progress -- or in many cases lack of it -- in implementing key recommendations for improving financial information for Parliament, for strengthening departmental financial administration and internal auditing functions, and for ensuring the accountability of Crown corporations. I discuss proposals for remedying existing deficiencies in *general management within the Public Service*. Based on studies my Office conducted during the last two years, I suggest a carefully planned program of productivity improvement to meet at least in part the current pressing need for restraint in government spending. I believe that my previous key recommendations not yet implemented, considered together with new proposals for improvements in the management and productivity of the Public Service, constitute a plan for the actions needed to assure Canadians that the 31st Parliament has regained control of public spending and that the Government has firmly grasped responsibility for the economical, efficient and effective

management of public funds and of the human and physical resources engaged in the Public Service. The new proposals include some important recommendations of the Royal Commission on Financial Management and Accountability (Lambert Commission) and of the Special Committee on the Review of Personnel Management and the Merit Principle (D'Avignon Committee). I conclude with my views on how the Office can best serve Parliament and with a description of some major new initiatives in which we are engaged.

1.3 Subsequent chapters in Part 1 of this Report describe the continuing development of the comprehensive auditing approach I initiated last year (Chapter 2) and present an inventory for the new Parliament of the status of the key requirements for good financial management, control and reporting emerging from the four major government-wide studies conducted by my Office during the 30th Parliament (Chapters 3 to 7). Chapter 8 provides a status report on financial control, reporting and audit matters affecting Crown corporations, and is intended to assist parliamentarians in reviewing legislation announced in the Speech from the Throne on October 9, 1979. Chapters 9 and 10 present our findings and recommendations arising from two new government-wide studies conducted last year, a study of Payroll Costs Management and a study of the Management of Telecommunications. Chapters 12 to 17 of Part 2 present the findings and recommendations resulting from comprehensive audits conducted during the last year in the following departments and agencies:

- Canadian International Development Agency
- Canadian Transport Commission
- Department of the Environment
- Department of National Revenue - Customs and Excise
- Department of Public Works
- Department of Supply and Services - Services Administration

This brings to 12 the number of departmental comprehensive audits reported to Parliament by my Office during the last two years.

Government-Wide Studies by the Audit Office (1974-78)

1.4 In each of the years from 1975 through 1978, I reported to Parliament on the results of a major government-wide study. These four reports set out more than 100 recommendations of a government-wide nature and many hundreds of recommendations to correct identified deficiencies at the departmental and agency level. Each study covered a particular aspect of the financial management and control of public funds and resources and the relevant reporting systems on government expenditures through the various levels of management, to the Government, and ultimately to Parliament itself.

1.5 These four studies were carried out by task forces composed of senior professionals from my Office and partners and managers of leading national firms of chartered accountants and management consultants, either loaned to my Office under the Executive Interchange Program of the Public Service Commission or

under short-term professional service contracts. Each study was conducted in depth across the whole range of government involving more than 50 individual departments and agencies. In one instance (the Financial Management and Control Study), the examinations also encompassed the 27 Crown corporations audited by my Office. Each study involved upwards of 100,000 professional hours, comparing in scope and magnitude to studies like those conducted by the Royal Commission on Government Organization -- 1960-63 (Glassco Commission) and the Lambert Commission -- 1976-79.

1.6 My senior officers and I were deeply involved in the planning, direction, evaluation of results and reporting of each of the studies. I was fortunate in obtaining the services under the Executive Interchange Program of three competent and experienced leaders as Directors General of the following three studies:

<u>Study</u>	<u>Period</u>	<u>Director General</u>
Financial Management and Control Study (FMCS)	1974-76	Robert B. Dale-Harris, F.C.A. Partner, Coopers & Lybrand
Computer and Information Systems Evaluation (CAISE)	1976-77	Ruben J. Rosen, C.A. Partner, Touche Ross & Co.
Study of Procedures in Cost Effectiveness (SPICE)	1976-78	Kenneth G. Belbeck, C.M.C. President, Stevenson & Kellogg

1.7 The fourth study, on Financial Information for Parliament, has been conducted as an integral element of the other three from 1974 to 1976 and separately during 1977 and 1978. Its leader has been N. Glenn Ross, F.C.A., a partner of Coopers & Lybrand and an acknowledged expert on government accounting. Mr. Ross, who has served as my Special Advisor since 1974, headed the Study of the Accounts of Canada for the Treasury Board in 1972-73, and serves as Chairman of the Study of Financial Reporting by Governments of the Canadian Institute of Chartered Accountants and as Chairman of my Independent Advisory Committee on Government Accounting and Auditing Standards.

1.8 Also, since 1974 we conducted a number of special audits and inquiries of a government-wide nature and reported them to Parliament. Each identified significant weaknesses in controls and procedures and made recommendations to correct them. These special audits and inquiries were:

-	Receipt and Deposit of Public Money	1976
-	Office Accommodation	1976
-	Travel and Relocation Expenses	1976-77
-	Internal Controls in Payroll Systems	1976
-	Manufacturers' Sales Tax	1976
-	Grants and Contributions	1976-77
-	Use of Statistical Data in Determining Certain Government Expenditures	1977

-	Charging for Accommodation Services	1978
-	Contracting Procedures	1978
-	Internal Auditing	1978
-	Payroll Costs Management	1979
-	Management of Telecommunications	1979

1.9 It is not easy to select particularly important or "key" recommendations from among the several hundred significant proposals that resulted from our massive five-year investigation of financial management, control and reporting practices across government. But careful evaluation eventually suggests that some are so fundamental in character that their successful implementation would virtually guarantee effective control and management of the public purse by the Government and Parliament.

1.10 *Inaction or inadequate action on the key recommendations arising from our government-wide studies will virtually guarantee that inadequate control of the public purse will continue, as will uneconomical, inefficient and ineffective management of public funds and of the human and physical resources engaged in the Public Service.*

The Need for an Integrated Action Plan for Improved General Management

1.11 To put into proper perspective the sort of action program I consider essential, it is not enough to consider only the key recommendations of the studies conducted by my Office. Consideration must also be given to recommendations contained in the recently published reports of the Lambert Commission and of the D'Avignon Committee. It is remarkable -- and fortunate -- that the completion by my Office of the four major studies and the 11 smaller examinations, each of an important government-wide issue, and the penetrating, far-reaching studies of the Lambert Commission and the D'Avignon Committee, coincide with the start of a new Parliament and a new Government.

1.12 Never before has there been such an evaluation of the quality of Federal Government administration and such a detailed identification of essential improvements based on intensive and comprehensive studies by, and from the perspective of, three independently constituted authoritative sources, each with a separate but related mandate.

1.13 *The time is right -- and will never be better -- to develop an integrated overall action plan to ensure effective financial, personnel and general management of Canada's publicly-owned funds and resources and -- most important -- to reintroduce inspired leadership and motivation of the human resources dedicated to the service of Canada as represented by its Public Service. This is the challenge -- and the opportunity -- for the new Government and the new Parliament.*

Actions Taken During the 30th Parliament

1.14 What key recommendations should form part of the *integrated action plan for improved general management* which I consider so essential at this time? To begin with, actions already taken by the previous Government and the 30th Parliament constitute a good foundation for what still has to be done.

Royal Commission on Financial Management and Accountability

1.15 The appointment of the Commission under the chairmanship of Mr. Allen T. Lambert was announced on November 22, 1976, the same day as the tabling of my annual Report in which I expressed my concern that Parliament -- and indeed the Government -- had lost or was close to losing effective control of the public purse. The Lambert Commission report was made public in March 1979 and contains 165 recommendations, a number of which are fundamental in character and of far-reaching significance. All 165 recommendations are reproduced in Appendix C of this Report. Taken in conjunction with the key recommendations of our own major studies, many of which they complement, the result provides a comprehensive plan for implementing an effective system of financial management, control and accountability.

Special Committee on the Review of Personnel Management and the Merit Principle

1.16 In February 1977, acting on a recommendation of the Public Service Commission, the Government announced the establishment of a Special Committee composed of a management and a labour representative under the chairmanship of Mr. Guy D'Avignon to review personnel management and the merit principle in the Public Service. The D'Avignon Committee presented a working paper in November 1978 and its final report was tabled in the House of Commons on October 15, 1979. It contains 179 recommendations, which support the necessity for strong direction from the Government and the central agencies and stress the need for accountability in the personnel management field to achieve a more effective and efficient Public Service.

1.17 In essence, the D'Avignon Committee reinforces the conclusions of the Lambert Commission that major reforms are required in the Public Service and that drastic measures have to be taken to provide the taxpayers with a Public Service more in keeping with their needs in the 1980s.

Appointment of the Comptroller General of Canada

1.18 The establishment of this position was the first of the three key recommendations resulting from the Financial Management and Control Study contained in my 1976 annual Report. On April 25, 1977, the Government announced the acceptance of this recommendation.

1.19 The second recommendation was to appoint as first Comptroller General the best qualified person that could be found in Canada. In February 1978, the Government announced the appointment of Harry G. Rogers, an experienced financial executive with impressive credentials.

1.20 From the date of his appointment, Mr. Rogers has provided strong leadership for the financial management community across Government. In the fall of 1978, he launched a comprehensive survey of 20 government departments which account for 82 per cent of total budgetary expenditures excluding public debt charges. This survey, known as Improvement in Management Practices and Controls (IMPAC), is designed to form the basis for detailed action plans in each of the 20 departments to correct identified weaknesses in planning processes and in financial management and control systems. These action plans would also provide the foundation for a meaningful and reliable information system for the use of management at all levels and for comprehensive internal audit and program evaluation systems. The departmental action plans resulting from this survey are now being received by the Office of the Comptroller General, and are being assessed in detail, department by department. When this step has been completed, the Comptroller General will provide my Office and through it the Standing Committee on Public Accounts with the IMPAC action plans. In addition, he plans to extend the IMPAC survey to some of the remaining departments, thereby bringing the amount of expenditures coming under review to 86 per cent of the total.

The Auditor General Act (1977)

1.21 My first action after my appointment as Auditor General in July 1973 was to appoint an Independent Committee to review the responsibilities of the Auditor General including the scope of his duties, the nature of his reports, his independence and the nature of the relationships he should maintain within and outside the Government. I was fortunate in persuading two distinguished chartered accountants, the late J.R.M. Wilson, F.C.A., and Marcel Bélanger, C.A., and an equally eminent lawyer, A. Lorne Campbell, Q.C., to serve as Committee members with Mr. Wilson as chairman. Messrs. Wilson and Bélanger have served as Presidents of the Canadian Institute of Chartered Accountants and Mr. Campbell as President of the Canadian Bar Association.

1.22 The Report of the Independent Review Committee (Wilson Committee), tabled in the House of Commons in April 1975, contained 47 recommendations relating to the independence, scope of audit, reporting requirements and relationships of the Office of the Auditor General. The most important recommendation was that the Auditor General should report to the House annually on whether government expenditures had been made with due regard to economy and efficiency and whether procedures to measure program effectiveness were in place where it was reasonable to expect they should be. In short, he should conduct value-for-money audits. This recommendation and all of the others requiring legislative action were accepted by the Government and incorporated in the new Auditor General Act which came into effect on August 1, 1977. The

extension of the Auditor General's scope and mandate to include value-for-money auditing is having an enormous effect on the work of the Office and ultimately will have a big impact as well on the economy, efficiency and effectiveness with which the Government and all levels of the Public Service manage public funds and resources.

Comprehensive Auditing for Parliament

1.23 Chapter 11 of my 1978 Report (the Centennial Report), recommended that my Office should respond to its enlarged responsibilities under the Auditor General Act by adopting a new five-component comprehensive auditing approach for Parliament, characterized by the acronym FRAME. It was to be carried out in a constructive manner on a cyclical five-year basis, properly co-ordinated with comprehensive *internal* auditing within Government. FRAME stands for: F - Financial Controls; R - Reporting to Parliament; A - Attest and Authority; M - Management Controls (value-for-money auditing); and E - EDP Controls. The Public Accounts Committee in its Second Report tabled on March 23, 1979, endorsed comprehensive auditing, as recommended. It is now being implemented in the Audit Office. Chapter 2 of this Report contains further comments on the continuing development of comprehensive auditing by my Office.

Key Recommendations Not Yet Implemented

1.24 The four key actions cited above that have been taken during the last five years are of fundamental importance to Parliament -- and to the Government -- in improving the control and management of public funds and resources. My 1978 Report made three recommendations which I described as "pillars for improved resource management." I urged prompt action to implement in each department or agency:

- properly designed, reliable, timely and responsive financial information systems, serving as the core of the total management information systems and incorporating both financial and non-financial data;
- an appropriate financial management organization structure and team led by thoroughly competent comptrollers; and
- a comprehensive, integrated, and co-ordinated internal auditing function, incorporating economy, efficiency and program effectiveness evaluation and led by a thoroughly competent professional in each department responsible directly to the deputy head.

Also, we reported in 1976 the results of our major study of the financial management and control practices of Crown corporations, including 18 government-wide recommendations.

1.25 Let us now consider what action was taken on the three recommendations for improved resource management made in 1978 and on the most significant of the recommendations in both our 1976 study of Crown corporations and related reports of the Public Accounts Committee.

Improved Information for Parliament

1.26 My 1975 Report, based on the Financial Management and Control Study, sharply criticized the form and content of the information submitted to Parliament in the Estimates and the Public Accounts. It urged that the Treasury Board undertake a study to introduce substantial improvements, many of which were spelled out in detail. The summary comment in paragraph 2.14 of my 1975 Report reads as follows:

"Particularly important are the proposals for a study to determine how the Estimates can be more effective in disclosing to Parliament and the public the uses to which funds are to be put and the proposal designed to ensure that the Public Accounts are consistent with the Estimates in showing how in fact the funds have been applied. Without such disclosure there is no truly effective way that managers can be held to account for the extensive financial authorities granted to them."

1.27 In response to the more specific recommendations contained in paragraph 10.6 of my 1975 Report, the Secretary of the Treasury Board advised the Chairman of the Public Accounts Committee in a letter dated June 21, 1976, that:

"The President of the Treasury Board has agreed to study the form and content of the Estimates, the main purpose being to determine what should be done to improve the information flow to Members of Parliament."

In the absence of any action by the Treasury Board, I announced in my 1977 Report that I would initiate a demonstration project to illustrate improvements that could be made using existing departmental information.

1.28 My 1978 Report, as promised, illustrated in detail the kinds of reforms that could and should be made to improve the quality of information submitted to Parliament in the annual Estimates (Chapter 6 - 42 pages and Appendix D - 58 pages of statements and charts). Similar reforms were recommended for the departmental information contained in the Public Accounts.

1.29 The Public Accounts Committee devoted nine meetings in February and March 1979, to a thorough examination of the information and recommendations in Chapter 6 of my 1978 Report and reported its findings and recommendations to the House of Commons in its Third Report tabled on March 23, 1979 (see Appendix D).

1.30 On March 8, 1979, following a somewhat stormy meeting a month earlier with the Sub-Committee on Agenda and Procedure of the Public Accounts Committee, the Secretary of the Treasury Board reported back to the Sub-Committee on the results of a meeting he had agreed to hold with the Comptroller General and the Auditor General. Agreement had been reached that a steering committee, comprising the Comptroller General and the Auditor General with the Secretary as chairman, had been established to direct a task force of representatives of the two central agencies and of my Office, to begin designing an integrated government-wide financial information and accounting system. The system would cover the amounts Parliament authorized for expenditure by approving the Estimates, straight through to the final accounting for them, department by department, in the Public Accounts. Such a system would include quantitative non-financial data as appropriate.

1.31 In its Third Report, the Public Accounts Committee stated:

- "5. Your Committee is concerned that Treasury Board has not yet presented the results of the study which it agreed to undertake in June 1976. However, your Committee welcomes the undertakings which Treasury Board reported to the Sub-Committee on Agenda and Procedure on March 8, 1979, and which have been attached as Appendix PA-24 to Issue No. 20 of the Minutes of Proceedings and Evidence of the Standing Committee on Public Accounts, to introduce revisions to the form of the Estimates according to a timetable further described in paragraph 8 of your Committee's report. Your Committee is pleased to note that the review to be conducted by the Treasury Board Secretariat and the Office of the Comptroller General, with appropriate participation by the Office of the Auditor General, will extend to the content of the Public Accounts and the systems to ensure the integrity of the information reported both in the Estimates and the Public Accounts.
- "6. Your Committee believes that the revision of the form and content of the Estimates for the purpose of improving the information which Parliament receives, calls for immediate action. ...
- "8. Your Committee recommends that:
 - (a) Treasury Board proceed immediately to produce illustrative estimates for specific departments in the Estimates for 1980-81 which can be tested by Members of Parliament individually and in committees;
 - (b) revisions be introduced on a government-wide basis in a parallel form in the 1981-82 Estimates;
 - (c) revisions which require additional work before their incorporation could be effected on a government-wide basis, be

incorporated in the 1982-83 Estimates or as expeditiously as possible thereafter;

- (d) consultation take place with your Committee and other parliamentary committees to ensure that revisions adequately reflect their needs;
- (e) the Comptroller General be directly involved in the Estimates revision process;
- (f) the Auditor General be consulted in the Estimates revision process; and
- (g) your Committee be apprised at regular intervals as to the progress being made on the revision of the Estimates."

1.32 I was especially gratified by these developments, coming as they did after four years of mounting frustration because of inaction by the Treasury Board Secretariat in grappling with this fundamental issue despite its initial undertakings to do so. It was of particular importance that the Public Accounts Committee chose to give Chapter 6 priority over other important issues in my Centennial Report, and completed its Report, which included numerous recommendations, just in time for tabling before Parliament was dissolved in March 1979.

1.33 To prepare for our advisory and consultative participation in this important project so vital to restoring parliamentary control of the public purse, I freed up the services of an Assistant Auditor General to be available to the task force full time if need be. I also ensured that the time of a Deputy Auditor General, Mr. Michael Rayner, and of my Special Advisor, Mr. Glenn Ross, as well as my own time would be available to the steering committee and the task force to whatever extent might be required.

1.34 *It is therefore extremely disappointing and a matter of genuine concern that I must report to Parliament that this project to improve the information Parliament receives has stalled almost completely, despite the commitments of the Secretary of the Treasury Board to the Public Accounts Committee. The steering committee has never met and the task force has proceeded in such a desultory fashion that I have reassigned to other duties the Assistant Auditor General originally designated to assist it.*

1.35 *In a meeting with the President of the Treasury Board, the Honourable Sinclair Stevens, P.C., M.P., early in July 1979, I emphasized the importance of this project to Parliament and to the Government. It constitutes the cornerstone -- perhaps the entire foundation -- of the integrated financial information, control and reporting system of the Government of Canada. Without this foundation, there can never be any meaningful system of financial accountability throughout*

Government. And contemplated reforms of the parliamentary committee system announced by the Government are unlikely to have much effect without reliable and meaningful information.

1.36 It is pertinent to quote here one of many definitions of accountability that have surfaced since the appointment of the Lambert Commission. Frederick G. Mosher, in his book entitled *The GAO: The Quest for Accountability in American Government*, provides the definition in question -- one of the simplest and best I have discovered:

"the key to accountability is..., quite simply, information -- the openness with which an individual or agency operates and the access to information by persons outside who are in a position to do something about it, if necessary, and the ways in which relevant information is selected, processed, and utilized."

From this definition it follows that accountability will be direct and effective where information is reliable and meaningful. For reasons I have set out in detail in five successive annual Reports to the House of Commons, it is clear that neither of these latter adjectives applies to the financial information Parliament now receives.

1.37 The fact that the previous Secretary of the Treasury Board has resigned and his successor has only recently been appointed is not an adequate reason for stalling this important study. Almost six valuable months and much momentum have been lost. I have been informed that responsibility for the top direction of this project has recently been transferred to the Comptroller General. I welcome this as a logical step.

1.38 *I strongly urge that this whole matter receive priority attention at the highest levels of the Government. In particular, I recommend that the necessary professional resources be mobilized with all possible urgency to activate and expedite this vital project.*

1.39 I further recommend that the newly organized Public Accounts Committee request the Comptroller General to submit a progress report and action plan for the project as soon as possible so its status can be ascertained and the plans for carrying it out will become a matter of public record for monitoring and follow-up by my Office and by the Committee itself. Chapter 4 of this Report contains additional comment on Parliament's information requirements.

Departmental Comptrollers

1.40 In addition to the two recommendations about the Comptroller General of Canada, my 1976 Report made a third key recommendation that the position of Comptroller be established in every department, agency and Crown

corporation, and that appropriately qualified persons be appointed. I emphasized that the Comptrollers should be the senior financial executives in their organizations, reporting directly to their deputy heads and functionally to the Comptroller General. They should be members of departmental executive or management committees, should have authority fully commensurate with their responsibilities, and should be responsible for ensuring that fully satisfactory financial and management information and control systems are in place and operating effectively in their departments.

1.41 Paragraph 10.38 of my 1975 Report set out the main duties of these positions for the first time. Paragraph 2.17 of my 1976 Report again raised the issue. Chapter 8 of the 1978 Report was devoted entirely to the subject of Departmental Comptrollers; Chapter 3 of this Report discusses it further.

1.42 In the House of Commons on December 9, 1976, the President of the Treasury Board stated:

"Too many financial management and control operations are entrusted to clerical people and people whose qualifications are often insufficient. Many departments and agencies have not yet elevated their chief financial officer to the position that he or she must occupy in the management structure in order to maintain or upgrade standards of financial administration.... It is my opinion... that this person should report not through anybody else but directly, at least, to the deputy minister of the department, the chairman of a board, or the president of a Crown corporation."

1.43 Action on this key recommendation, first put forward four years ago, has been agonizingly slow. At present few appropriately qualified persons have been designated as Departmental Comptrollers, reporting directly to the deputy head, serving as a member of the management committee and discharging substantially all of the responsibilities recommended for these positions.

1.44 Delay in proceeding with the designation of Departmental Comptrollers is understandable and may indeed have been justifiable pending the appointment of the Comptroller General, who took office April 2, 1978. It is essential that the designation of Comptroller be confined to those whose appointments bear the recommendation or endorsement of the Comptroller General. But the absence of such key officials in the top management structures of departments is bound to retard the progress of the overall improvement programs that my Office has been advocating since 1975 and that major departments are almost ready to implement through the IMPAC action plans agreed with the Comptroller General. *Greater attention to this matter is strongly urged and new, imaginative action plans must be generated, perhaps involving executive interchange with the corporate sector to provide the necessary impetus.*

1.45 It cannot be emphasized too strongly that a Comptroller, as envisioned, is more than an accountant or a bookkeeper. The job calls for much more than simply keeping track of allotments and ensuring that votes are not over-expended. One of the Comptroller's most important responsibilities is to be the right hand of the deputy head in ensuring that there is a good information system in place to identify promptly areas requiring executive management attention. Of course the financial planning, control and reporting system forms the core of this management information system. The Comptroller serves as the pivot on which the entire financial information and control system rests and to whom all accounting and financial personnel are accountable in a functional sense for the effective discharge of the responsibilities assigned to them. He is a key member of the top management team, especially when, as is often the case, the deputy head is more concerned with, and experienced in, policy development than with general management and administrative leadership.

1.46 In a situation such as now exists, where many departments have inadequate management information and financial reporting systems, the Comptroller must be the vital driving force in the task of redefining the systems and implementing the required changes. The results of the government-wide Study of Procedures in Cost Effectiveness (SPICE) in my 1978 Report and the Study of Payroll Costs Management in Chapter 9 of this Report offer clear evidence that management at all levels is generally under-equipped to ensure that public funds are being spent economically and efficiently and that program effectiveness is being systematically evaluated. Therefore, it is all the more important to proceed as expeditiously as possible with the appointment of Departmental Comptrollers, who can be of invaluable assistance to the general managers of the Public Service, the deputy heads and their senior associates, in seeking to maximize the economical, efficient and effective use of public resources.

1.47 *Appointments of qualified personnel to the key positions of Departmental and Agency Comptrollers have been made at far too slow a pace to achieve real progress in providing departmental management, the Government and Parliament with the information they must have to exercise even minimum control over the management of public funds and resources. New and imaginative steps must be considered if a reasonable target date for achieving these objectives is to be met.*

Comprehensive Internal Auditing by Government for Government

1.48 Chapter 12 of my 1978 Report recommended that the type of comprehensive auditing (including value-for-money auditing) I adopted for audits on behalf of Parliament be used for internal auditing throughout Government. Internal audits should be *constructive* in terms of action-oriented reports to management, *cyclical* in terms of covering each auditable area on a timetable geared to a plan that is practical and appropriate to each department, and *co-ordinated* with the external audit conducted by our Office. Then economy, efficiency and effectiveness can be achieved in auditing in the same way as is expected for any Government program.

1.49 This recommendation was reviewed in detail with the President of the Treasury Board and the Comptroller General before the publication of my 1978 Report. In his letter dated October 13, 1978, which was included in my 1978 Report, the President of the Treasury Board expressed agreement with the principle of these recommendations. Implementation of comprehensive internal auditing has already begun in a number of departments. In other cases, decisions await completion of the Comptroller General's IMPAC review. The establishment of audit committees and the strengthening of internal audit functions, headed by experienced professionals with well-defined responsibilities, have been key recommendations of my annual Reports since 1975 and are described further in Chapter 6 of this Report.

1.50 *Comprehensive internal auditing is an essential element of the overall plan of financial management and control and should receive priority attention. There is no reason why professionally qualified people could not be made available quickly to expedite this plan if the Government gives the necessary direction and sees that person-years and funds are applied to the program. I urge it to do so.*

Control and Accountability of Crown Corporations

1.51 In recent years, increasing attention has been paid to the operations of Crown corporations. Previously, many operated with little publicity or attracted little interest in Parliament. In my 1976 Report, based on the results of the Financial Management and Control Study of Crown corporations (which I conducted as Auditor General of Canada on behalf of Parliament, and not in my capacity as the appointed auditor of these 27 corporations), I submitted the following opinion:

"In the majority of the Crown corporations audited by the Auditor General, financial management and control is weak and ineffective. Moreover, co-ordination and guidance by central government agencies of financial management and control practices in these Crown corporations are virtually non-existent."

1.52 Immediately following the tabling of my 1976 Report, the Lambert Commission was appointed with terms of reference that included inquiry into the financial management of Crown agencies and the accountability of their heads for administration. In April 1977, following a separate study by the Privy Council Office, the Government released a document containing its proposals for the control, direction and accountability of Crown corporations. My 1977 Report commented on these proposals as they pertained to financial management, control and audit. The Public Accounts Committee considered my 1976 and 1977 comments and in April 1978 made a comprehensive report of its own to the House of Commons on Crown corporations. In March 1979, the Lambert Commission Report set out a number of important recommendations on the control and accountability of Crown corporations.

1.53 After all the intensive study of this complex subject by various bodies over the last four years, the time has come to deal with the issues that have been identified, and to resolve them. Chapter 8 of this Report summarizes the position of my Office on Crown corporation financial management, control and audit matters. It has been prepared to assist parliamentarians in considering the forthcoming legislation on Crown corporations. It reflects the continuing discussions that have taken place over the last three years between senior representatives of my Office and members of the Government's interdepartmental task force responsible for advising on the development of the legislative proposals. Two of the many matters contained in Chapter 8 warrant special comment. The first concerns the auditing arrangements applicable to Crown corporations and the second the need for central agency guidance on basic standards of financial management and control.

1.54 Comprehensive auditing for Crown corporations. In accordance with the provisions of the Financial Administration Act and the Auditor General Act, my Office has begun comprehensive cyclical audits in a number of Crown corporations, using the same five-component FRAME approach described earlier. The A component or attest audit must, of course, be conducted annually so the required audit opinion can be expressed on each corporation's annual financial statements. The other four components of the comprehensive audit are being undertaken on a cyclical basis -- the same as for departments and agencies: F (Financial Controls); R (Reports to Directors and Shareholders); M (Management Controls -- value-for-money auditing); and E (EDP Controls).

1.55 One question raised about the application of comprehensive auditing to Crown corporations concerns whether the corporation is dependent, in whole or in part, on the public purse. It has been argued that financially independent corporations should not be subject to comprehensive audits. I am firmly of the opinion that a corporation's commercial success in any one year or in a series of years should not determine whether it should be subject to comprehensive auditing on behalf of the beneficial shareholders -- the taxpayers of Canada. Few, if any, Crown corporations have profitability as a central objective or reason for existence. The key issue is ownership. Parliament, representing the Canadian taxpayers, has a right and a responsibility to ensure that Crown corporations are accountable for achieving government policy objectives. Because these objectives can seldom be measured on the basis of profitability, an examination of financial performance alone is not a sufficient basis for assessing performance. Comprehensive auditing can ensure an appropriate degree of accountability for Crown corporations without jeopardizing their independence from Parliament. For corporations owned outright by the Government, the comprehensive audit, as defined in Chapter 11 of my 1978 Report and endorsed by the Public Accounts Committee in its Second Report dated March 23, 1979, should be a requirement.

1.56 Chapter 8 of this Report notes that six Crown corporations considered to be cultural agencies will be studied by a joint parliamentary committee to determine what controls should apply to them. Meanwhile, they will continue to be governed by existing legislation rather than the new Crown Corporations Act.

I strongly believe that an appropriate system of management control and accountability can be established without interfering with the program decisions or the artistic integrity of cultural agencies. All six cultural agencies clearly depend on the public purse and as such require the financial and management controls proposed for other Crown corporations that depend on taxpayer funding. I would oppose the exemption of individual corporations, for any reason, from the controls and accountability called for by their public ownership and degree of public funding. As an integral part of the process of accountability to Parliament, these cultural agencies should be subject to the same requirement for comprehensive auditing as other Crown corporations owned outright by the Government. To exempt them from appropriate controls, especially the independent assurances provided through a comprehensive audit -- which does not impair policy and managerial autonomy -- would be a basic denial of the principle of accountability.

1.57 There is a significant difference between reporting on the comprehensive audits of Crown corporations, and reporting on the comprehensive audits of departments and agencies called for by the Auditor General Act. Section 77 of the Financial Administration Act sets out reporting requirements for auditors of Crown corporations. They are the same whether the auditor is the Auditor General of Canada or a private auditing firm. Section 77 requires the auditor to report to the shareholder (the responsible Minister) on certain specified matters and also on any matters that he feels should be brought to the attention of the House of Commons. I understand that the audit reporting sections in the new Crown corporations legislation will also provide for reporting to the responsible Minister and, if the auditor considers it necessary, to the House of Commons.

1.58 In fulfilling his reporting responsibilities, the auditor should first communicate the results of his comprehensive audit to management and to the Audit Committee of the Board of Directors. Then a summary of the most significant matters should be presented to the corporation's board of directors. Finally, bearing in mind the arms-length relationship that Parliament intended should apply between the corporation and itself, the auditor should carefully consider whether any of his findings and the action (or lack thereof) on important recommendations are of such significance that they should be reported to the Minister, or other designated authority, for tabling in the House of Commons. We shall follow these reporting practices carefully for Crown corporations of which I am the auditor, and the auditors of other Crown corporations should follow them with equal care. As requested by the Public Accounts Committee, my Office is available to private sector auditors of Crown corporations for consultation on auditing and reporting practices.

1.59 **Guidance to Crown corporations on basic standards of financial management, control and reporting.** My 1976 and subsequent Reports recommended that a central agency, specifically the Office of the Comptroller General, be responsible for issuing basic standards of financial management, control and reporting for the guidance of boards of directors, executive management, and auditors of Crown corporations. The purpose would be to encourage consistency in applying the minimum standards needed to ensure that public funds and

resources entrusted to the corporations are under appropriate control, and that satisfactory financial management, control and reporting systems are in place.

1.60 The Lambert Commission's recommendations do not support this view. The Commission tends to emphasize the arms-length relationship between a Crown corporation and its shareholder, and relies heavily on the boards of directors to ensure satisfactory financial management, control and reporting practices. Where the real shareholders are, in effect, the taxpayers of Canada, and when public funds and publicly-owned resources are involved, I still firmly believe that the Government must have the means to ensure that the public interest is safeguarded. I see no possibility that a corporation's autonomy in policy or operational matters would be impaired or weakened if the Comptroller General published minimum standards of financial management, control and reporting. On the contrary, I am convinced that the executive management, the audit committees and the directors of Crown corporations would welcome such guidelines and standards. Not the least benefit would be that they would be entitled to receive assurances from their auditors that these minimum standards and guidelines are being complied with. I understand that the Government is giving further consideration to this matter as part of its review of the legislative and administrative control proposals affecting Crown corporations.

A Blueprint for Action During the 31st Parliament

1.61 I turn now to issues of *general management* arising both from the work of the Lambert Commission and the D'Avignon Committee and from my own observations over the last six years, supported by the results of the 15 government-wide studies and the hundreds of departmental and agency examinations conducted by my Office during that period. The proposals for management and productivity improvement outlined below, together with the key recommendations described in preceding sections for improving information for Parliament, for strengthening departmental financial administration and internal auditing functions and for ensuring the accountability of Crown corporations, constitute what I believe to be the key elements in a blueprint for actions required during the new Parliament to begin to restore public confidence in the *general management* processes of the Government.

Central Management of Human Resources

1.62 The D'Avignon Committee Report addressed this subject. The Lambert Commission Report also gave it a significant amount of attention. Each recommended that the Government and, more specifically, the Treasury Board assume the full responsibility for guiding the management of human resources throughout Government and that the role of the Public Service Commission be redefined to achieve this objective. I consider this recommendation eminently sound and fully compatible with the endeavours of my Office during the last five years to establish a more effective role in the structure of Government for the financial control and management of public funds and physical resources. In

essence, both D'Avignon and Lambert recommend that an office be established for human resource management, roughly compatible with and parallel to the Office of the Comptroller General, with responsibilities and relationships in the personnel field comparable to those of the Comptroller General in the field of financial management. This makes good sense. The Government cannot reasonably be held fully accountable -- as it should be -- for its management of human resources -- the most important resources of all -- when it shares responsibility with an agency of Parliament. A parallel would be if the Auditor General were also to act as Comptroller General -- an untenable and impossible situation for the Government, for Parliament and for the official.

General Management in the Public Service

1.63 My 1978 Report, when commenting on the results of the government-wide Study of Procedures in Cost Effectiveness (SPICE), included my opinion that there was a widespread lack of due regard for economy and efficiency in the operations of the Government, and inadequate attention to whether programs costing many millions of dollars were accomplishing what Parliament intended. I also said that our findings should not be taken as an indictment of public servants for ineffective management of public funds and resources, because their mandate was unclear and their training inadequate. Both Lambert and D'Avignon in their respective reports confirm that managing public funds and resources economically, efficiently and effectively has not been an important part of a typical mandate of most managers in the Public Service. Nor have most managers been adequately trained in applying the principles inherent in good business management.

1.64 The problem is compounded further by the fact that managers have not generally been furnished with the tools to do the job. My 1978 Report and this Chapter identify three of these tools: improved financial and management information systems; Departmental Comptrollers; and comprehensive internal auditing. The fourth tool has been identified by Lambert and D'Avignon as a manager of the human resources activities comparable in rank and functional responsibilities to the Departmental Comptroller. There still remains the question of mandate with which must be associated the appraisal of performance in terms of managerial capabilities and the system of rewards for good management and penalties for bad management which have been largely non-existent.

1.65 It would be presumptuous and redundant for me to dwell at any length on these subjects other than to identify them, in company with Lambert and D'Avignon, as vital in terms of effective general management. It seems incumbent on the Government, at the highest level, to redefine in specific terms what it expects from each manager, beginning with the deputy head, in managerial proficiency and accountability for results, including value for money. This clarification would become part of the managerial philosophy from top to bottom throughout the Public Service and would inevitably result in a change of attitude.

1.66 Chapter 9 of this Report notes that about \$170 million was spent on formal off-the-job training programs in 1977-78. Comparatively, a small proportion of money is spent in training courses in business-oriented management, especially in general management. As the D'Avignon Committee recommended, early attention ought to be given to this aspect of the responsibilities allotted to managers at all levels up to and including deputy heads. Adequate ready-made facilities do not exist, making new and imaginative approaches essential to implement the theme in my 1978 Report -- "help the managers manage". That theme contrasts with "let the managers manage" (Glassco) and "require the managers to manage" (Lambert). Nonetheless, I agree with both admonitions. All three are compatible and mutually supportive.

1.67 In the past, departments have not made significant use of the Executive Interchange Program as a feature of managerial development. This program may be more appropriate for professional organizations such as my own Office than for managerial personnel in the public and private sectors. Certainly its use in our Office has produced excellent results and it has now become a built-in characteristic of our operations. A concerted approach to explore and exploit this valuable program to assist in developing the managerial capabilities of public service employees and in exposing private sector managers to the problems inherent in public service management could prove mutually beneficial.

1.68 As part of such a program, it might be possible to develop national panels of senior business and professional executives from the private sector. They would be asked to serve in special capacities on advisory boards or committees set up to advise government departments on the *management* of public funds and resources. They would not have a mandate to look at *policy* areas; they would concentrate their attention specifically on the resource management function. More specifically, individuals with managerial responsibilities in the public and private sectors might benefit -- and so might their respective organizations -- from a wider application of the Executive Interchange Program of the Public Service Commission.

1.69 I am not trying to suggest that the private sector manages everything well and the public sector manages everything badly. This may be the popular fallacy. I reject it. What I am saying is that in the private sector, the penalties for poor management whether in a corporation or by an individual are severe: bankruptcy in the case of a corporation and loss of employment in the case of an individual. No such penalties exist in the public sector for the organizational unit or for the manager. On the other side of the coin, exceptionally good management in the private sector means substantial rewards, both for the corporation and for the individual. No rewards of real consequence exist for exceptional, or even good management in the public sector. In these circumstances, it seems sensible to borrow from the private sector, at least for limited periods of time, the experience that characterizes good management and good managers. Equivalent opportunities could also be provided for public servants with good management potential to obtain experience in managerial positions in a business environment. The emphasis here should be on giving public servants

experience that will promote their development as line managers well-grounded in private sector planning and financial control techniques.

1.70 The Public Service customarily rejects ideas such as these on the grounds that the objectives of government are different from those of business and that any attempt to meld them is inevitably doomed to failure. Furthermore, anyone proposing such ideas is usually regarded at best as a naive, impractical idealist. After six years of public service, which has included quite intensive observation of government administration at reasonably close quarters and on a broad scale, I cannot agree. On the contrary, I am more than ever of the opinion that there is no reason whatever that the long-established and widely known principles and practices of economical, efficient and effective business management cannot be successfully applied in a wide range of government services. They will not, of course, be applied successfully without the will to do so. Leadership and motivation of this sort must come from the very highest levels of the Government on down. And this type of inspired leadership must have the unstinted and unswerving support of senior management, reinforced with the plans, skills, resources and determination to accomplish such results on behalf of our employers -- the taxpayers of Canada.

1.71 *I am convinced that innovative and imaginative approaches are essential in training and developing effective general and middle management in the Public Service. Such challenges can be met successfully if there is a determination to do so throughout the Government, starting from the very top. Spectacular results are possible if the resources needed are effectively mobilized and skillfully applied.*

Enhancing the Authority and Accountability of Deputy Heads

1.72 Since 1931, when the Government centralized most financial management and control responsibilities, studies like Glassco and Lambert have proposed greater authority for deputy heads so that they can be held accountable for the operations of their departments. The Lambert Commission found that the "deputy head's formally defined administrative authority, whether delegated, directly assigned, or implicit in legislation, provides a clear basis for his managerial role and accountability". It called on deputies to "exercise their delegated authority over departmental organizations, personnel and operation to ensure that maximum value is obtained from resources".

1.73 The Lambert Commission recognized a need for deputy heads to be held accountable in a systematic and coherent way for program management and administration. To this end, it proposed that deputy heads be designated the "Chief Administrative Officers" of their departments and that they be liable to be called before the Public Accounts Committee to render an accounting for their administration. It called for the deputies in their capacity as "Chief Administrative Officers" to develop departmental plans and performance goals and proposed that these be used in monitoring their achievements.

1.74 All the proposals make sense, but they will only work if the deputy heads have the authority and necessary tools to be held accountable. The Lambert Commission found that "deputy heads have less authority in personnel management than in any other area". It also found that they often lacked the tools needed to discharge their responsibilities successfully. To achieve significant improvements in resource management, deputy heads must be given greater freedom in the selection of their key subordinates. They need help from central agencies and from their own financial, personnel and internal audit groups to develop the information and systems required for effective management. They also need the sense of managerial accountability that results from a rigorous but respected process for the appraisal of their personal performance, and the belief that their levels of remuneration are consistent with both their responsibilities and their achievements.

Productivity Improvement

1.75 As we move into the 1980s, we face a new environment regarding the expenditure of public funds. The massive increases in government spending fuelled by a buoyant economy in the 1960s and early 1970s can no longer be sustained. Economic difficulties have forced Canadians to look more carefully at government spending, and taxpayers are sending a clear message to governments, demanding value for money. This is reflected in the policies of the new federal Cabinet to eliminate unnecessary spending, and in a statement by the former Prime Minister in an address to the nation last year. What is required, Mr. Trudeau said then, is "more for less", which I took to mean more results for less cost.

1.76 Chapter 9 contains perhaps the most serious evidence of inadequate management of human resources from the standpoint of economy and efficiency by reporting the results of performance measurement tests in levels 1 to 4 of the clerical and regulatory occupational group which consists of some 50,000 employees across Government. Our tests, conducted in accordance with recognized standards and methods, showed an average efficiency of 60.8 per cent. It is generally agreed that where performance can be measured, 80 per cent is a minimum acceptable group performance. To confirm this, we surveyed 87 companies. Their average expected performance for clerical employees was 89.9 per cent while their average actual performance was 87.7 per cent.

1.77 Last year we commented as follows on the results of our examination of systems for measuring efficiency:

"Our examination of 16 performance measurements covering about 100,000 man-years in 12 departments revealed only two systems that were considered satisfactory. Most of the performance measurement systems reviewed did not play an important part in the program management process. They generally did not satisfy the information needs of the operating manager who must make the day-to-day decisions required to control productivity".

We also commented that:

"In most operations we audited, management did not know the actual level of efficiency or how much it might be increased. In most labour-intensive situations, there was insufficient effort to increase productivity."

Furthermore, as a result of our investigation of manpower planning systems this year, we comment in Chapter 9 that:

"Management generally did not have the means to ensure that human resources were of the right number and type for carrying out government programs efficiently."

1.78 *These evaluations of current productivity levels raise an important question: if the Government's policy is to ensure that employees receive a fair day's wage, should it not also be a policy for both management and employees to ensure that the employer (in effect, the taxpayer) receive a fair day's work in exchange?*

1.79 We have attempted to place some order of magnitude on the significance of our findings on the level of productivity in the group selected for the 1979 tests, which produced the average result of 60.8 per cent. With a minimum acceptable level of efficiency of 80 per cent, the shortfall is equivalent to a potential saving of resources of 24 per cent for the same output, or a potential increase in output of 32 per cent using the same resources. If these results are typical of the occupational group and if a minimum acceptable level of 80-per-cent efficiency could be attained, then the work now performed by 50,000 employees could be performed by 38,000. Another way of putting it is that if the level of efficiency could be raised to only the minimum reasonable level these 50,000 employees could do the work of 66,000.

1.80 This one rigorous and fairly comprehensive study indicates possible economies in *direct* payroll costs of about \$170 million, simply by improving productivity to a *minimum* acceptable standard. If we were to add *indirect* costs the figure would increase to well over \$200 million. In this single area, about one seventh of the Public Service, we are talking about potential cost improvement equal to as much as \$35 a year for each Canadian taxpayer -- a not inconsiderable sum, even in these inflationary days! This is a thought-provoking situation if it is typical of the Government as a whole -- which it probably is. This is the sort of issue that I think must be addressed constructively at the highest level of Government and reflected in an *integrated action plan for general management*.

1.81 The issue here is not simply the results of one performance test. Rather it is the entire principle of adopting sound, tried and true managerial practices for government activities wherever practical. In my opinion, it cannot be emphasized too strongly that the Government, starting at the Cabinet level,

has at hand a unique opportunity for initiating positive and far-reaching action that will enable Canada's Public Service to enjoy the same opportunities and facilities as the private sector for the exercise of sound, economical, efficient and effective resource management.

1.82 *I urge that the Government, at the highest levels, adopt a positive, co-ordinated action plan for addressing the fundamental issues raised by the comprehensive and intensive studies performed by the Lambert Commission, the D'Avignon Committee and my Office.*

Role of the Office of the Auditor General

1.83 I should like to turn now to how the Office of the Auditor General can serve Parliament and the taxpayers of Canada more effectively in the future.

Canadian Comprehensive Auditing Foundation

1.84 A principal theme in my last Report to Parliament was the introduction of comprehensive auditing, described earlier in this chapter, to be applied in a constructive and co-ordinated manner and on a cyclical basis. To mark the 100th year of the Office, a centennial conference was held in Ottawa in December 1978, with the theme "Comprehensive Auditing -- Planning for Century II". The centrepiece of comprehensive auditing as we have defined it is the evaluation of management controls or, in short, value-for-money auditing. Value-for-money auditing in Canada has stemmed directly from the report and recommendations of the Wilson Committee tabled in 1975 in the House of Commons. The report provided not only the genesis of the Auditor General Act at the federal level in Canada, but also the foundation for legislative action in several provinces. Auditors in other provinces where legislation has not yet been enacted generally follow, wherever feasible, the broad guidelines set out in the Wilson Report.

1.85 My Office has been engaged since 1974 in developing what we now describe as comprehensive auditing and has applied significant professional resources to both methodology development and to training our professional staff in the new techniques. It seemed appropriate that we offer to share this methodology and the relevant training programs with our counterparts in Canada at the provincial level. Realistically it must be borne in mind that for all practical purposes the same taxpayers pay for our activities and their activities. The provincial parliamentary auditors and I have been meeting annually since 1973 to exchange information on professional matters and to pool our resources for staff development. It was, therefore, logical and natural that we should agree in December 1978 to work together to the maximum extent possible in both comprehensive auditing methodology and related professional development programs for our respective offices and staffs.

1.86 In 1978, the Special Committee to Examine the Role of the Auditor (Adams Committee) of the Canadian Institute of Chartered Accountants endorsed value-for-money auditing for chartered accountants in public practice engaged in the audit of governmental bodies and other publicly funded organizations. Many private sector audit firms are engaged in the audit of Crown corporations both at the federal and provincial level throughout Canada. As the benefits of value-for-money auditing become more widely known, universities, hospitals and charitable organizations, as well as municipalities, school boards, etc. will likely insist on this type of audit. It is, therefore, a natural development that private auditing and consulting firms and internal audit groups have a keen interest in the evolving methodology of comprehensive auditing in which we have been so deeply involved in the public sector at the federal level.

1.87 During our December 1978 discussions on a joint program for developing comprehensive auditing, my provincial counterparts agreed that we should invite all interested organizations engaged in auditing in the public and private sectors to join us in a co-operative, non-profit, research-oriented and professional development endeavour. Working with senior representatives of public accounting and management consulting firms, we began planning such an endeavour, modelled in structure to some extent on the Canadian Tax Foundation formed originally over 30 years ago under the auspices of the Canadian Bar Association and the Canadian Institute of Chartered Accountants. It has been eminently successful in providing for fundamental and applied research in taxation and as a forum for tax practitioners. With our Office playing a co-ordinating role, plans are already well laid for establishing the Canadian Comprehensive Auditing Foundation within the next several months.

1.88 The Comptroller General of Canada, who has responsibility for co-ordinating internal auditing throughout the Federal Government, has been kept closely in touch with these developments and expects that his Office will join the other organizations interested in sponsoring the foundation. To fulfil our mandate from Parliament, we must continue developing comprehensive auditing methodology and training our professional staff in applying it. Obviously it makes good sense to share the task, the costs and the benefits with other interested organizations. We are providing leadership in this new approach to public sector auditing for use also by both public and private sector auditors of governments and other publicly-funded organizations. It is significant and gratifying that we are receiving the interested and active support and encouragement of the Canadian Institute of Chartered Accountants in this endeavour.

International Activities

1.89 Canada has served as a member of the United Nations Board of Auditors for 24 of the 34 years since the United Nations was established. In 1980, Canada will complete its fourth consecutive three-year term and, in somewhat belated recognition of the principle of rotation, the decision was taken with the approval of the Government that Canada should not stand for re-election when its present term expires next year.

1.90 In 1976 Canada, in collaboration with the other two then members of the Board of Auditors, Colombia and Pakistan, was instrumental in introducing some significant reforms in the organization of the audit and in the auditing practices. These included the introduction of systems-based auditing, the launching of the first comprehensive financial management and control studies, and the establishment of an Audit Operations Committee on which each of the three member states are represented under a chairman serving as Director General of External Audit. An Assistant Auditor General of Canada has served as chairman of the Audit Operations Committee and Director General of the U.N. external audit since 1976.

1.91 In 1979 Canada made several further proposals to strengthen the U.N. external audit capability. This initiative was placed before the Fifth Committee of the United Nations, which considers administrative and financial matters, in October 1979 by the Canadian Ambassador and Head of the Canadian Permanent Mission to the U.N., Mr. William H. Barton. The key proposals call for:

- an enlargement of the three-member Board of Auditors and a change in its role to become the Audit Committee of the United Nations;
- the establishment of the position of Auditor General of the United Nations with appropriate independence and authority, to be nominated by the Board of Auditors and appointed by the General Assembly; and
- the direction by the U.N. Auditor General of a central team of experienced professional auditors, supplemented as required by contracted specialized professional resources, which would provide the nucleus for training candidates from developing nations ultimately expected to be leaders in financial administration and government auditing in their respective countries.

Following consideration by appropriate committees of United Nations and by the Secretary General, this Canadian initiative will be considered again by the General Assembly in 1981.

1.92 Meanwhile, Canada has announced a plan for making scholarships available to appropriately qualified candidates from developing nations for training in Canada with our Office, or possibly with offices of provincial parliamentary auditors, under the auspices of the Canadian Comprehensive Auditing Foundation. Existing aid programs will provide up to \$500,000 a year over a five-year period for these scholarships.

Melding Private and Public Sector Auditing

1.93 In 1974 it became apparent that a government-wide evaluation of the quality of financial management and control systems should be made. This study

was necessary to provide Parliament for the first time with an opinion on whether the measures and procedures in force were adequate to control the public purse. Moreover, the evaluation would also help determine the professional resources the Audit Office needed to introduce systems-based auditing.

1.94 An evaluation of that scope and magnitude was clearly well beyond the Office's in-house capacity and professional capabilities. Therefore an appeal was made to leading firms of chartered accountants in Canada to make available the services of audit partners and managers under the Executive Interchange Program. To help conduct the evaluation, 38 partners and managers from 19 audit firms joined for approximately 18 months to work with a similar number of Audit Office professionals on the Financial Management and Control Study (FMCS).

1.95 This melding of the professional resources of the Audit Office and private sector audit and consulting firms proved so effective and successful that the program has become an integral part of our operations.

1.96 Since 1974 similar teams of professionals have carried out three other major government-wide studies and numerous smaller projects. The staff members of private sector firms of chartered accountants and management consultants were either loaned to the Office under the Executive Interchange Program for periods of one to two years or supplied under short-term contracts. More than 500 professionals, representing more than 50 firms, as well as a number of individual practitioners participated in these projects.

1.97 This approach is a practical demonstration in the professional field of the policy the previous Government announced in 1975 to encourage sharing of government programs with private sector firms where practical and economical, a policy consistent with the announced programs of the present Government. Over the last few years, 30 to 35 per cent of the Audit Office's expenditure was related to the services of private sector professionals either under Executive Interchange or short-term contractual arrangements.

1.98 The melding of public and private sector professional resources for legislative auditing in the manner described is believed to be unique both in Canada and elsewhere. Without the use of outside professional sources on the scale and on the basis applied, it would have been extremely difficult, prohibitively expensive and in fact virtually impossible to carry out the far-reaching government-wide studies which have drastically reformed the organization and audit practices of the Audit Office to meet the challenges presented by Parliament through the new Auditor General Act.

1.99 The results of this program have produced significant tangible and intangible benefits:

- The professional staff of the Audit Office have participated in team efforts with well-qualified people from public accounting firms and have benefited professionally through the association.
- More than 500 partners and staff members of public accounting and management consulting firms from across Canada have rounded out their professional qualifications and competence by gaining public sector audit experience and first-hand knowledge of the workings of public administration.
- The Audit Office obtained the services of an expertise on a national scale that it could not afford, and would not necessarily require on a full-time permanent basis.
- This working association appears to be significantly more economical, efficient, and effective than a permanent bureaucracy of comparable size and range of skills.

Service to Parliamentary Committees

1.100 The Government has announced its intention to introduce reforms in the organization and working arrangements of parliamentary committees. In the past, questions have arisen as to the nature of research and other facilities that could be made available to help make the work of parliamentary committees even more effective. Some questions have been addressed to my colleagues and to me on how the resources of our Office could be applied to assist the Public Accounts Committee, and possibly other parliamentary committees, by providing independent evaluations of financial data and related information where special inquiries of a financial nature are indicated.

1.101 In my judgment, it is not for the Auditor General to make direct recommendations in this connection. In accordance with the traditional practices of the Office, and in accordance with our interpretation of our mandate, we are pleased to receive information from parliamentarians on matters or situations that they think call for inquiry or investigation. Invariably we follow up on such referrals and, if circumstances warrant, include the results in our next annual Report. Section 8 of the Auditor General Act now provides that in circumstances of pressing importance or urgency the Auditor General can make a special report to the House of Commons. This clause has not yet been applied.

1.102 In deliberations on the role of its committees, the House of Commons may wish to consider to what extent, if any, the professional resources of the Office of the Auditor General could or should be applied at the request of a parliamentary committee, either to provide expert financial advice as an independent agency of Parliament or to conduct inquiries or studies at the specific request of a committee. In this connection, it may be pertinent to remark that Section 11 of the Auditor General Act reads as follows:

"The Auditor General may, if in his opinion such an assignment does not interfere with his primary responsibilities, whenever the Governor in Council so requests, inquire into and report on any matter relating to the financial affairs of Canada or to public property or inquire into and report on any person or organization that has received financial aid from the Government of Canada or in respect of which financial aid from the Government of Canada is sought."

No doubt, if it were considered desirable to do so, some amendment of the Act could be contemplated which would permit the authority now available to the Governor in Council to be extended under special circumstances to a standing or special committee of Parliament, or to the House of Commons itself if the matter were of great importance. I want to emphasize that I am not recommending any specific course of action, but merely raising the matter for consideration. Should the matter be pursued, it is obvious that care must be taken not to risk in any way an impairment of the independence and impartiality which are vital to this Office if it is to serve Parliament effectively.

Conclusion

1.103 Today, as never before in the six years since I became Auditor General, there exists a climate of hope and expectation that the serious erosion of Parliament's control over the public purse can be halted and control restored. With the new Parliament, there is a new Public Accounts Committee, and with the new Government, a new Treasury Board. Supporting the Treasury Board is the new Office of the Comptroller General, created in 1978 in response to the deep concerns and key recommendations included in my 1976 Report. Moreover, as the 31st Parliament begins, two major reports dealing with the management of and accountability for the financial and human resources of the Government have been made public -- the Lambert and D'Avignon Reports.

1.104 The opportunity now exists for re-establishing a clear chain of accountability -- from Parliament, through the Government, to the senior levels of the Public Service and down to the lowest levels at which managerial responsibility is exercised. There is a pressing need for imaginative leadership at the highest levels of Government to develop and implement an overall plan for economical, efficient and effective general management of public servants and of the public funds and physical resources entrusted to the Government by Parliament --and to Parliament by the taxpayers.

1.105 Within the next year, I shall reach the mandatory retirement age stipulated in the Auditor General Act. It seemed appropriate, therefore, that I should place on record in this my final annual Report to the House of Commons an inventory of the major issues and recommendations reported by my Office during the last six years -- particularly those for which remedial action has not yet been initiated or on which progress has been disappointingly slow. Despite the promise of the times, I remain deeply concerned that the new Parliament's control of the

public purse is at best fragile. Without strong, well-planned and co-ordinated action by Parliament, the Public Accounts Committee, the new Government, the Treasury Board and the Comptroller General, the current hopes and expectations of Canadians cannot and will not be achieved. I hope this inventory and program for future action will assist the 31st Parliament and its Public Accounts Committee to chart their course on resource management, control and evaluation issues during the 1980s.

* * * * *

1.106 With my term of office coming to an end within a few months, I must place on record that it has been an enormously rewarding personal experience to have been engaged, even for a few years, in the service of one's fellow citizens. Given a similar opportunity for public service, perhaps for a second career as in my own case, it is an experience that I highly recommend to my fellow Canadians. And by far the most interesting and rewarding experience of all has been to participate, at least in a small measure, in the Canadian parliamentary process and to observe and be associated with parliamentarians engaged in making it work -- and making it work better.

COMPREHENSIVE AUDITING FOR PARLIAMENT

COMPREHENSIVE AUDITING FOR PARLIAMENT

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COMPREHENSIVE AUDITING FOR PARLIAMENT

Introduction

2.1 In last year's Report, we outlined a new comprehensive approach to auditing for Parliament. This Chapter expands on the manner in which comprehensive auditing helps the Office achieve its objectives and explains the planning, execution and reporting of our audits. We also comment on the continuing development of this auditing approach. We believe that this overview will help Parliament, the Government and the public to better understand and interpret comprehensive audit reports.

2.2 Accountability and audit. Accountability is the central issue in control of the public purse. It is the obligation to answer for a responsibility that has been delegated or conferred. Audit is a process superimposed on an accountability relationship to provide assurance that information is appropriately disclosed and fairly presented. Specifically, our concern is with the Government's obligation to answer to Parliament for its management of public funds and resources. Our objective is to help Parliament learn whether public funds granted to the Government have been used for the purposes intended, have been properly safeguarded and accounted for, and have been managed economically, efficiently and effectively. The work of the Office is of three types:

- attesting to the fairness of information reported by the Government to Parliament;
- assisting Parliament to initiate action to improve the information it receives from the Government; and
- reporting significant matters directly to Parliament in accordance with the requirements of the Auditor General Act.

2.3 Attesting to information. Financial reporting has traditionally been one of the principal means of holding managers accountable for their stewardship and performance. The auditor's role is to add credibility to the information reported. In addition to other responsibilities, the Auditor General performs this function for the Government of Canada. He expresses an opinion and makes observations on the information presented in the financial statements of the Government of Canada. He also audits and reports on the financial statements of a number of Crown corporations and other government-owned entities. In these cases, the Auditor General acts as an independent party, providing assurance that information reported to Parliament is appropriately disclosed and fairly presented.

2.4 Improving information reported. We have pointed out in our annual Reports that the information reported to Parliament is inadequate both for decision-making purposes and for establishing accountability for stewardship and performance. Chapter 4 stresses the need for better disclosure of both financial and non-financial data in the Estimates and in the Public Accounts to enable Parliament to assess government performance more effectively. The comprehensive audits reported in Chapters 12 to 17 include sections on reporting to Parliament.

2.5 Direct reporting by the Auditor General. The Auditor General Act requires the Auditor General to call attention to anything that he considers "of significance and of a nature" that should be brought to the attention of the House of Commons, including cases where there is insufficient accounting for and control over public resources; where money has been expended for other than the purposes intended; where money has been expended without due regard to economy and efficiency; and where procedures to measure and report the effectiveness of programs are unsatisfactory.

2.6 We use two approaches to discharge our parliamentary responsibility. One is to conduct government-wide or special studies on particular aspects of the management of resources. Examples are the payroll costs management and telecommunications studies reported in Chapters 9 and 10 respectively. The other is to carry out comprehensive audits of individual departments and agencies to permit an evaluation of their management of resources and administration of public funds. This year's comprehensive audit reports are included in Chapters 12 to 17 of this Report.

The New Audit Approach

2.7 Our 1978 Report described comprehensive auditing as a new approach for the Office that evolved largely from our work in the preceding five years. Beginning in 1973, the Office launched a series of major government-wide studies, each concerned with a key area of financial and management control and each directing attention to policies, systems and procedures established by central agencies. These studies laid the groundwork for the new audit approach.

2.8 In 1977, the Auditor General received an expanded mandate from Parliament under the new Auditor General Act, necessitating a broader audit scope and a practical systems-based approach to auditing. The skills, system approaches and criteria used in the earlier government-wide studies were integrated into what we have termed comprehensive auditing for departments, agencies and Crown corporations. In addition to being comprehensive, our audit approach is constructive, co-ordinated and cyclical.

2.9 Comprehensive auditing. In contrast to the government-wide studies, the objective of the new audit approach is to provide comprehensive information to Parliament on individual departments and agencies in terms of their

management of public funds and other resources. To help familiarize members of our Office, managers in Government and parliamentarians with the scope areas of comprehensive auditing and the corresponding audit skills needed, we have adopted the acronym FRAME. The five components integrated into a single audit are:

- *Financial Controls* - an evaluation of the controls over revenues, expenditures, assets and liabilities, including the organization of the financial function and its place in the general management structure; the qualifications and suitability of financial personnel to the needs of the organization; the appropriateness of the accounting systems and procedures; and the appropriateness and adequacy of budgeting and financial reporting systems.
- *Reporting to Parliament* - an evaluation of the nature, content, adequacy, reliability and timeliness of financial and related non-financial information presented in reports to Parliament. The principal formal reports to Parliament include the Estimates, the Public Accounts and the Auditor General's annual Report.
- *Attest and Authority* - the expression of an opinion on financial statements and the verification of parliamentary and governmental authority for expenditures.
- *Management Controls* - an evaluation of the system of management information and controls, including the internal audit/evaluation/review functions, so as to ensure there is due regard to economy and efficiency and that appropriate procedures to evaluate and report on program effectiveness, where such are feasible, are in place and operating satisfactorily -- in short, value-for-money auditing.
- *EDP Controls* - an evaluation of controls over financial and other information processed by computers and of management controls over the use of computer-related resources.

2.10 Constructive auditing. The comprehensive audit, with its systems-based approach, lays the groundwork for constructive recommendations to Parliament and for remedial action by the audited organization. It does not restrict itself to isolated cases of improper transactions, but enables the auditor to draw attention to fundamental deficiencies in financial and management controls and in reporting procedures -- and to suggest lines along which improvements should be made. We also report responses from the departments or agencies subject to comprehensive audit, providing the opportunity for them to comment on our findings and recommendations and state what action they plan to take. Our recommendations and the departmental responses provide a basis for parliamentary follow-up to ensure that remedial action is taken.

2.11 Co-ordinated auditing. Our 1978 Report was critical of auditing within Government; however the Government is currently taking steps which should result in improvements in internal audit. Chapter 6 outlines the main problems and the Government's action. Ideally, this Office should be able to rely on the work of internal auditors in the Public Service. Where we are satisfied that the scope and quality of their work is appropriate and sufficient, we will co-ordinate our work with theirs. Co-ordination between internal and external audit and reliance on internal audit should result in greater value for money from auditing.

2.12 Cyclical reporting. Based on our experience to date, comprehensive audit reporting will be the product of audit work extending over several years. However, significant matters will always be reported to Parliament on a timely basis. We believe that this cyclical plan provides a reasonable time for government managers to take corrective action, permits more effective reviews by Parliament, and contributes to a more effective use of audit staff.

2.13 In its Second Report to the House of Commons dated March 23, 1979, the Standing Committee on Public Accounts endorsed our audit approach.

2.14 The three phases of a comprehensive audit -- planning, executing and reporting -- are outlined in the following sections. Our comments are limited to an overview to help readers of our Reports to understand the comprehensive audit process and the way we develop our conclusions and recommendations. We describe the process in terms of distinct and consecutive steps but, in fact, many of the steps overlap and must be considered throughout the audit.

Audit Planning

2.15 Planning the comprehensive audit means determining audit objectives and resources to ensure that the audit covers the most important organizational functions and processes. This involves the following steps:

- gaining an understanding of the audit entity;
- determining significant accountability relationships;
- identifying key management systems;
- specifying audit criteria; and
- preparing an audit plan.

2.16 Understanding the audit entity. The audit entity may be all or part of a government organization. The auditor must fully understand the programs that the entity administers and appreciate the problems and constraints under which it operates. Therefore, the first step in the audit process is to understand the

social, economic and political environment that influences the audit entity and, recognizing its environment, to understand its organization and operations. To help readers who are unfamiliar with the audited organization, each of the comprehensive audit chapters includes a brief outline of the history and organizational structure of the audit entity and the nature and size of its programs and operations.

2.17 Determining significant accountability relationships. We are primarily concerned with the way the audit entity manages public funds and resources. Since management discharges responsibilities assigned by Parliament, we have to establish what these responsibilities are and how management has translated them into performance objectives.

2.18 In Chapter 15, we illustrate a program "accountability model" which may be appropriate for inclusion in the Estimates to display to parliamentarians the program responsibilities of a department or agency. We developed this audit tool to assist us in understanding the fundamental concepts of program accountability to Parliament. It is also used in the audit to determine the extent to which the effectiveness of programs can and should be measured and reported, and how satisfactory the measurement and reporting procedures are. In addition, the model helps in identifying the financial and management systems needed to support accountability.

2.19 Identifying key management systems. The next step in the audit planning phase involves identifying the key management processes and procedures that have been established to carry out and report on the responsibilities of the audit entity. For example, in Chapter 15, we report on procedures and controls in the areas of tax administration and enforcement because they are critical to the operation of the Department of National Revenue - Customs and Excise. Our audit of the Department of the Environment, reported in Chapter 14, concentrated on management controls in areas such as the regulatory process and research and development. In the Department of Public Works audit, reported in Chapter 16, we examined the systems for operational planning, budgeting and control, and their relationships to the Department's role and objectives.

2.20 Specifying audit criteria. For our purposes, audit criteria are defined as reasonable standards against which management and financial control and reporting systems can be assessed. They should be useful to Parliament and senior government managers as well as to this Office. For senior managers in Government, they constitute standards against which their systems and procedures are being judged and they provide a basis for developing or evaluating their own management procedures. For Parliament, audit criteria provide useful bench-marks for assessing Government's management of funds and other resources.

2.21 Defining audit criteria and obtaining a consensus on their appropriateness is not a simple task. Some sources, such as legislation, government directives and guidelines, and contemporary authoritative literature state criteria explicitly. In the absence of such explicit criteria, the auditor must use his professional judgment and knowledge to develop criteria applicable to particular situations. The basic standard is what a reasonable and informed person would expect Government to do in the circumstances.

2.22 Where the Government has established management standards which we consider adequate, we audit against them. Where standards exist but we judge them inadequate, we suggest improvements. Where standards do not exist, we develop criteria for the circumstances. In examining the regulatory process in the Department of the Environment, we developed audit criteria in the following areas: determining objectives; identifying and ranking pollution problems; developing regulations and guidelines for pollution control; implementing and enforcing pollution control measures; and measuring and reporting program effectiveness. Criteria were developed from a model designed to reflect the basic components of a regulatory process. What we are attempting to do for the future, however, is to develop simply-stated criteria that can be applied to a variety of audit situations.

2.23 **Preparing an audit plan.** The final step in the planning phase is to prepare an audit plan that:

- defines the audit scope in terms of projects to address those matters likely to be of significance to Parliament;
- identifies resource requirements, including special skill needs; and
- establishes time budgets and deadlines.

2.24 The scope of a comprehensive audit should be broad enough to permit useful conclusions about resource management and financial administration. In each department or agency report, we describe the scope of the audit so that the reader is informed of what was audited and, if significant, what was not audited.

2.25 A variety of skills is usually required to carry out the work identified in the audit plan. The nature of the audit entity and the scope of the audit dictate the particular skills needed. For example, in the audit of the Department of Supply and Services - Services Administration, reported in Chapter 17, the audit team included, in addition to financial auditors, a consultant experienced in planning and control, a computer audit specialist to examine management controls over electronic data processing, a human resource management specialist to review aspects of payroll costs management, and an industrial engineer to review the measurement of efficiency.

Audit Execution

2.26 Audit execution means doing the job. It is an application of the well-developed techniques of systems auditing:

- evaluating and testing controls;
- identifying effects and determining causes; and
- developing conclusions and recommendations.

2.27 Evaluating and testing controls. Having identified in the audit planning stage the audited organization's program objectives, its processes and procedures to attain those objectives, and the criteria or standards against which management processes and controls can be assessed, we now seek to identify the controls in the system. Where control procedures are in place, we test to see that they operate as intended.

2.28 Identifying effects and determining causes. Where our reviews indicate that satisfactory control procedures do not exist, we conduct substantive tests to determine the effects of these deficiencies. We also attempt to find the underlying reasons for the weaknesses so that we can make useful recommendations. To a large extent, the information reported in department and agency chapters reflects this step in the audit process. Examples or cases are reported, not as an end in themselves but as evidence to support our findings about unsatisfactory systems.

2.29 Developing conclusions and recommendations. The final step in the execution phase is to translate our detailed findings and analyses into conclusions. Recommendations are then prepared as guides for action. Their purpose is to suggest what improvements are needed rather than to indicate specifically how to achieve them. One section of each department or agency chapter is devoted to a summary of our conclusions and recommendations.

Audit Reporting

2.30 Reporting is the final phase in the audit process. It comprises reporting to senior management on the results of our audits as well as reporting to Parliament.

2.31 Reviewing with management. Before reporting the results of a comprehensive audit to Parliament, we discuss them with senior managers of the entities we audit. One purpose of this review is to ensure that the findings are accurate and understood, and that we obtain management's responses to our conclusions and recommendations. Another reflects the constructive side of auditing. Constructive auditing means going beyond a mere recitation of

deficiencies and shortcomings to provide management with concrete, written recommendations for improvement.

2.32 Reporting to Parliament. Finally, a summary of the significant matters to be brought to the attention of Parliament is included in our annual Report. Chapters 12 to 17 of this Report are examples, of reports intended to help Parliament judge the quality of a department's or agency's resource management and financial administration. They also include our recommendations for improvements and management's responses to them. These responses inform Parliament of the department's or agency's views and action plans.

Continuing Development

2.33 Methodology and practice. The development of the methodology and practice of comprehensive auditing within the Office has progressed substantially since the concept was first introduced last year. The six department and agency reports included in this year's Report, while still not fully representative of what we ultimately expect to achieve, are good illustrations of the direction in which we are moving. We have learned from these experiences. We are standardizing our audit approach and developing new audit techniques. Steps have been taken to develop consistent and generally acceptable audit criteria in the areas in which we have performed audits. As outlined in Chapter 8 of this Report, we are using a special "laboratory" group of Crown corporations to develop specialized comprehensive auditing methodology for such corporations. Much remains to be done, however, to ensure that our comprehensive audits meet Parliament's needs for useful information and that they provide government managers with objective and constructive suggestions for improving financial and management systems and procedures.

2.34 Professional development. Continuing education programs are an important part of the activities of professional organizations inside and outside Government. This Office has devoted much time and effort to professional development activities over the last few years. Moreover, comprehensive auditing poses new and difficult challenges which must be met quickly and efficiently.

2.35 A program of orientation to comprehensive auditing was developed during the past year to introduce concepts and techniques. A first step was the Centennial Conference of the Office of the Auditor General in December 1978. The theme of this two-day Conference was "Comprehensive Auditing -- Planning for Century II". In attendance with senior personnel of the Office were parliamentarians, senior public servants, the provincial legislative auditors, members of academic institutions, public accounting and consulting firms, and a number of prominent guests from abroad. A few months later, an orientation session on comprehensive auditing, incorporating Conference proceedings, was presented for members of the Office staff who could not attend the Centennial Conference.

2.36 During the summer of 1979, a two-year comprehensive training program for senior audit staff was developed for presentation starting in the early fall. This program incorporates a combination of activities -- formal classroom instruction, structured on-the-job training and self-study programs. It is intended for the members of our staff responsible for managing comprehensive audits, including some 40 partners and senior managers from public accounting and consulting firms who have recently joined the Office under the Public Service Commission's Executive Interchange Program to contribute to the development of comprehensive auditing. Training programs for other levels of staff are being developed.

2.37 Other developments. Comprehensive auditing, as practised by this Office, has attracted interest across Canada and other countries. For a number of years, the Office has consulted with senior advisors drawn from private sector public accounting and consulting firms. The Auditor General has also been closely associated with provincial legislative auditors. As mentioned more fully in Chapter 11, the senior advisors and the legislative auditors have agreed to the formation of a study group to establish a Comprehensive Auditing Foundation to promote the development of comprehensive auditing. Pending establishment of the Foundation, the study group will provide a forum for the exchange of views and serve as a focal point for collecting and disseminating information on comprehensive auditing and for developing training programs. In terms of the development of our comprehensive auditing methodology and practices, the Audit Office will both contribute to and benefit from these co-ordinated initiatives.

2.38 Professional accounting organizations in Canada have also recognized the benefits of and need for comprehensive auditing. For example, the Canadian Institute of Chartered Accountants' Special Committee to Examine the Role of the Auditor suggested in 1978 that an extension of traditional auditing to encompass value-for-money auditing would be appropriate for all levels of government. It also suggested that, in time, comprehensive auditing should be extended to other publicly-funded organizations.

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An Inventory for Parliament

2.39 The following five Chapters have a dual purpose for Parliament: they summarize the work of this Office and others -- the Lambert Commission and Government itself -- over the past five years in assessing resource management controls, and they summarize basic criteria for parliamentarians to use in their review of Government's management processes.

2.40 We believe that Members of Parliament, especially new Members, will be helped by these Chapters built around the five major components of comprehensive auditing. As we explained earlier, the audit criteria developed to date are reasonable standards against which management's controls and reporting systems

can be assessed. These five areas, therefore, should be useful to parliamentarians as a framework for their own review of a department, agency or Crown corporation, or of management extending across Government.

2.41 Establishing audit criteria. This Chapter has explained audit criteria as the standards that we use to evaluate financial and management controls and reporting in the organizations we audit. We have pointed out that these criteria have to be developed by us where the Government's own performance criteria have yet to be developed or are not extensive enough for the job, and that forging them is no simple task. To both the parliamentarian and senior government manager, they indicate the lines of inquiry to be pursued in our audits and represent bench-marks against which we assess the quality of control systems. Wherever possible, use is made of government policies, directives and guidelines as audit criteria, but these are uneven in their coverage. This Office's government-wide studies have identified many areas where government directives need to be restated and communicated more effectively to public service managers. The Government's own studies, particularly those of the Comptroller General, also suggest a need to establish or clarify government direction in many areas. The relevant literature suggests alternative approaches or courses of action in many areas, and the Lambert Commission suggests some new approaches. For all these reasons, it would be premature to expect either a full array of criteria or standards to which we can refer, or full consensus on those we use. In the absence of specially-formulated and agreed-upon criteria, we have based our audit criteria on this question: "What would a reasonable and informed person expect from senior public service management in the circumstances?"

2.42 Assessing government progress. The following Chapters also briefly describe government actions that resulted from our studies. Although many remedial studies are under way, there is little conclusive evidence that remedies are firmly in place. These Chapters do not contain a full description of actions taken, nor do they seek to judge whether progress and results are satisfactory. Further progress by Government will undoubtedly be achieved before the Public Accounts Committee considers this Report. The Committee will make its own assessment, based on its hearings and on up-to-date progress reports from Government.

FINANCIAL CONTROLS

FINANCIAL CONTROLS

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FINANCIAL CONTROLS

Introduction

3.1 As defined in Chapter 2, the financial controls component of comprehensive auditing comprises:

"an evaluation of the controls over revenues, expenditures, assets and liabilities, including the organization of the financial function and its place in the general management structure; the qualifications and suitability of financial personnel to the needs of the organization; the appropriateness of the accounting systems and procedures; and the appropriateness and adequacy of budgeting and financial reporting systems."

3.2 The Financial Management and Control Study. In 1974, this Office launched a government-wide review of financial controls to evaluate the reliability and integrity of financial systems and reports, since the degree of reliance we can place on them determines the nature and scope of our detailed audit examinations.

3.3 The findings in the 1975 and 1976 annual Reports cited major deficiencies in most financial systems in the 35 departments and agencies examined. This included deficiencies in the systems of budget preparation and control, financial reporting, control over financial transactions, and internal audit. Financial functions in many departments were not adequately staffed. Many people performing these duties were frustrated because they lacked the authority, direction and training necessary to perform their functions effectively. These findings led to the conclusions that financial management and control systems were grossly inadequate and significantly below acceptable standards. The 1976 Report also summarized the key elements in controlling the public purse and, along with subsequent Reports, reviewed the Government's actions to correct reported deficiencies. In 1978, we reported in greater detail on the role of departmental comptrollers.

3.4 The 1975 study made 34 recommendations for government-wide changes, all of which were reviewed and endorsed by the Public Accounts Committee. Government responses have acknowledged the problems and offered plans for remedial action, but many problems still require attention.

3.5 The Lambert Commission generally confirmed the findings of the Financial Management and Control Study and stated that:

"Nothing that has come to our attention would suggest that the inadequacies of government financial management and control have been overstated."

3.6 The financial control topics dealt with in this Chapter are:

- the role of the Comptroller General of Canada;
- departmental comptrollers;
- budgetary processes;
- budgetary control and reporting systems;
- accounting systems; and
- control of transactions and records.

The Role of the Comptroller General of Canada

3.7 **The need for leadership of the financial function.** Before 1976, no single senior official was acknowledged and designated as the chief financial officer of the Government -- to whom the Government or deputy heads could turn for advice on the financial management and control of the resources entrusted to them, for assistance in selecting financial officers for departments, or for guidance on the responsibilities that they should expect departmental financial officers to discharge.

3.8 Our 1976 Report called for establishing the position of chief financial officer of the Government, preferably with the title Comptroller General of Canada, and selecting and appointing a person with appropriate professional qualifications and experience, and a proven record of outstanding competence and achievement.

3.9 The Government effectively implemented these recommendations by creating the Office of the Comptroller General of Canada and appointing Harry G. Rogers to the position in February 1978. Responsibility for the financial management and control of expenditures is assigned to the Treasury Board, and the Comptroller General, on behalf of the President of the Treasury Board, now clearly has authority to recommend government policies, directives and guidelines in the area of financial management and control and, where required, to interpret them. The Comptroller General has also been given functional responsibility (dealt with in Chapter 6) for the management systems to measure and report on economy, efficiency and effectiveness, and for internal audit and program evaluation.

3.10 The Estimates, Public Accounts and departmental annual reports.

These documents are the visible end products of the information systems of Government. The standards of disclosure applied to them determine to a great extent the nature and scope of the underlying information systems and the quality of financial analysis. In 1976, we recommended that the Comptroller General be responsible for advising on the form of the Estimates and Public Accounts as a first step in promoting consistency between the two documents and in improving presentations within them.

3.11 The Public Accounts Committee's reports, arising out of hearings on Chapter 6 of our 1978 Report, *Improving the Financial Information Parliament Receives*, called for the staffs of both the Treasury Board Secretariat and the Comptroller General, along with this Office, to participate in studies to improve Parliament's information. Chapter 4 shows that a joint and comprehensive approach has been slow in materializing.

3.12 This problem has recently been addressed. In August of this year, the President of the Treasury Board assigned to the Comptroller General the principal responsibility for determining the form of the Estimates.

3.13 Spending control. Managers at all levels and ultimately the Government and Parliament need financial and performance information on spending to make decisions on plans to manage resources effectively. Decentralization of management responsibility requires the Government to establish the accountability of managers at the outset in the plans proposed and approved, and to maintain this accountability by periodic comparisons of actual with planned performance.

3.14 Budgetary processes should translate long-term objectives and strategic plans into operational plans and Estimates that fit within resource constraints. Budgets should also provide standards or norms against which managers can subsequently be held accountable for both costs and performance. Our 1976 Report suggested that the Comptroller General should see that departmental budgetary systems reveal planned efficiency and economy and provide enough detail for subsequent analysis of variances from planned results.

3.15 Systems that will provide this type of information are needed if managers are to be accountable for results. Our Reports have recommended that the Comptroller General should regularly monitor departmental financial reports and systems, as a basis for reporting significant matters to Treasury Board ministers. Although the Comptroller General is now involved in systems reviews, substantial improvements will be necessary before the ministers can receive regular and reliable reports relating departmental performance to plans.

3.16 The Comptroller General should be in a position to determine the extent to which financial and performance information, and any analysis of it, has been competently and objectively prepared by departments, and to provide advice based on the information reported.

3.17 Meeting the need for financial skills and staff. The Financial Management and Control Study reported widespread shortages of staff with appropriate knowledge concerning financial control systems. It cited such causes as the lack of:

- effective organizational and reporting arrangements;
- professional requirements in job classification standards;
- continuity in staffing of financial positions;
- adequate performance appraisals of financial staff; and
- leadership to the financial community.

3.18 The Lambert Commission confirmed these findings but attributed part of the problem to a lack of awareness by managers of the services they should expect from financial officers. The Commission recommended that the Comptroller General "determine the requirements of government for financial and accounting skills, and be responsible for the identification and development of the necessary people to meet these requirements." The Office of the Comptroller General and the Public Service Commission are taking action to upgrade the skills of existing staff through training programs and by acquiring personnel with better financial management skills.

3.19 Audit criteria. *To provide leadership for the financial function, the Comptroller General should:*

- *recommend and interpret government financial policies, directives and guidelines in the area of financial management and control;*
- *set disclosure standards for the Estimates, Public Accounts and departmental annual reports;*
- *report to ministers on the spending plans and performance of departments and agencies, and on the adequacy of the supporting expenditure control systems; and*
- *identify the requirements for financial skills and actions needed to satisfy them.*

Departmental Comptrollers

3.20 Background. The Financial Management and Control Study reported that both financial officers and program managers in departments held a narrow perception of the scope of financial officer responsibilities. Many senior financial officers did not report directly to the deputy head, providing little assurance that financial management and control issues were properly addressed in planning and other decision-making. Many seemed preoccupied with preparing requests for additional funds and lacked concern about the effectiveness of spending. Many were not being consulted on the design of controls over major grant, contribution and loan programs or about computer, capital expenditure and other types of specialized control systems. In short, the control and advisory aspect of the senior financial officer's function had been subordinated to a processing and service role.

3.21 The position of departmental comptrollers. The Glassco Commission in 1962 stressed the importance of the role of the senior financial officer as an adviser reporting directly to the deputy head. Our annual Reports have emphasized the need for a position in each department, preferably with the title of "comptroller", reporting directly to the deputy head and serving as a member of the top management group. The Lambert Commission supports this view in saying that the "full potential of the senior financial officer as a member of the management team and as a participant in the planning and evaluation processes is considerably underestimated and under-utilized." The Commission blames this weakness partly on the failure of managers to understand the practical importance of financial management, and partly on the lack of the requisite experience and skills of senior financial officers.

3.22 Although there has been a marked improvement in the way some departments perceive the roles of financial officers, it has not been universally accepted that the departmental comptroller should report to the deputy head. One reason is that many departmental comptrollers are not in a position to provide deputy heads with useful information, analysis and advice on planned and actual costs and performance because they do not have the required systems in place. Often their responsibilities and authority are too circumscribed to permit them to be effective. Until departmental comptrollers report to the deputy head and are given responsibilities at the departmental level comparable to those given the Comptroller General at the government level, their role is unlikely to be effective.

3.23 There is one major difference between the responsibilities that departmental comptrollers should have within their departments and those the Comptroller General has for the Government as a whole. The Comptroller General, as the senior financial policy officer for the Government, has functional responsibility for program evaluation and for internal audit. This includes ensuring that departments have appropriate organizational arrangements, skills and processes. In our 1978 Report, we recommended that within departments these responsibilities should be separated from the financial function and that the comptroller

should report directly to the deputy head. The combination of responsibilities under the Comptroller General makes sense only if the Comptroller General does not become directly involved in conducting audits and evaluations. Here, we differ with the Lambert Commission which proposed that "the Comptroller General and the Secretary for Personnel Management conduct an annual in-depth review of each department's management performance." This could be in conflict with his other responsibilities.

3.24 In recognition of past failures to use financial officers effectively, the Lambert Commission concluded that the senior departmental financial officer "will have to be backed up by the Comptroller General and given an explicit mandate to take part in various departmental activities, at least until attitudes become altered enough to accept his involvement without question."

3.25 To ensure that financial staff within departments properly heed the functional directions given to them by departmental comptrollers, the Lambert Commission recommended that:

"On receipt of a report of unsatisfactory financial management, the Board of Management be empowered to direct that all financial staff of the department concerned report directly to the senior financial officer for a period to be specified by the Board."

Where fully qualified comptrollers have been appointed, Parliament should expect to see this proposed power used, but only if serious problems occur.

3.26 Enhanced duties for departmental comptrollers. The Financial Administration Act clearly makes deputy heads responsible for the financial management of their departments, even though the responsibility may have been neglected. The Lambert Commission suggested that central agencies may have unduly dictated how this responsibility is discharged and called for a number of changes which would require a stronger comptrollership function in departments. For example, it recommended that:

- Departmental Strategic Plans replace the centrally imposed and standardized Program Forecasts;
- Estimates be submitted by each department and agency in the form best suited to disclosing their intentions;
- departments, not a central secretariat, explain and justify Estimates submissions to ministers;
- departments be fully responsible for the design and upkeep of their own accounting systems;
- departments and agencies prepare more complete annual reports; and

- financial data in Volume II of the Public Accounts be signed by the deputy minister and his senior financial officer.

3.27 If financial management systems are to be made useful and reliable, the principal components should be appropriately integrated under the direction of departmental comptrollers in the same way as the Government has brought them together under the Comptroller General. These changes, if implemented, would greatly increase the departmental comptroller's role and his contribution to departmental management.

3.28 The appointment and appraisal of departmental comptrollers. The Glassco Commission proposed that senior financial officers be appointed by deputy heads, with the concurrence of the Treasury Board. Treasury Board concurrence was rejected by the Government in implementing that Commission's proposals. This may explain why the Lambert Commission found that "not one senior financial officer interviewed was able to cite any instance where he had, on his own initiative, examined a spending pattern or the cost of an activity, or sought out areas of overlap or duplication." Until the Comptroller General was appointed, senior financial officers depended largely on the deputy head for their appointment and future prospects, and would have been foolhardy to go beyond a service or facilitating role.

3.29 This Office has recommended professionally qualified departmental comptrollers and strongly supports the Lambert Commission's recommendations that:

"For senior financial officer positions, the deputy head select a candidate from a list drawn up by the Comptroller General and recommend that candidate for appointment by the Secretary for Personnel Management."

"Each senior financial officer be required annually to establish measurable goals for his personal performance, that such goals be agreed to by the deputy minister and the Comptroller General, and that his subsequent performance evaluation by the deputy be based on a measurement of achievement against these goals."

The two Royal Commissions have agreed on the need for some safeguard in appointing departmental comptrollers. This is an important matter. The Government should continue to support and strengthen the role of the Comptroller General in this area.

3.30 Audit criteria. *To support the deputy head effectively and to carry out the government-wide financial policies recommended by the Comptroller General, the departmental comptroller should:*

- *report directly to the deputy head and be a member of the senior management committee;*
- *have responsibility for reporting to the deputy head on departmental spending in relation to plans, for budget preparation and control systems and for cost and other performance measurement systems; and*
- *be selected by the deputy head from candidates approved by the Comptroller General, and be appraised, in part, against goals agreed to by the Comptroller General.*

Estimates and Other Budgetary Processes

3.31 At one time, budgeting consisted solely of preparing the annual Estimates and such Supplementary Estimates as might be needed. These were prepared centrally in terms of objects of expenditures that identified the particular human, material, capital goods and services, and grants and contributions on which money would be spent. As a result of the Glassco Commission recommendations, the process was partly decentralized so that each responsible manager forecast his resource requirements. Then, in the late 1960s, a Program Forecast was introduced, six months before the Estimates, to permit review of new programs and to establish spending limits. At the same time, the structure of the information was changed to shift emphasis from objects of expenditure to functional, program and activity presentations that would better explain why funds were being spent.

3.32 The Program Forecast was originally designed to permit the Government to make decisions on expenditure limits before managers became involved in a detailed budgeting exercise. By clarifying government objectives and identifying resource restraints, it was hoped that managers would have the guidance needed to develop realistic operational plans and translate them into budgetary requirements for Estimates purposes.

3.33 The Financial Management and Control Study found that managers were using the Program Forecast as the principal budgeting exercise even though the timing was not appropriate. This was because they regarded it as the time when resource allocations were settled. The Lambert Commission similarly concluded that Program Forecasts had become "medium-term detailed budgets," "a detail-laden agglomeration of expenditure budgets" and "a process that focuses principally on new initiatives" containing "ill-founded predictions of costs," and that "forecasts for subsequent years are not put to any useful purpose."

3.34 The Lambert Commission called for three new budgetary documents to replace the present Program Forecasts:

- a Fiscal Plan providing estimates of revenues, expenditure ceilings and the projected surplus or deficit over a five-year period;
- Departmental Strategic Plans; and
- a memorandum outlining key operational goals to be submitted in support of the Estimates.

3.35 The Fiscal Plan. The Fiscal Plan proposed by the Lambert Commission would improve the information Parliament receives and should also avoid the problems of the Program Forecast since it calls for spending limits by departments and agencies in the first three years, and by function for the full five-year period covered by the Plan.

3.36 If the Lambert Commission's proposals for new budgetary documents are accepted, these matters must be addressed during implementation:

- Government functions, such as foreign affairs, defence, or social security, are the focal point of the plan and their components should be defined in such a way that users will all have similar interpretations, consistent from year to year.
- Central agencies must avoid making decisions on the details of departmental programs when setting limits. Such involvement could lead to a repetition of the experience with Program Forecasts where a top-down planning document was converted into a bottom-up budgeting exercise where managers prepared their budgets without adequate knowledge of government priorities and constraints.
- Individual departments and the Government as a whole must develop procedures to make it easier to reassign resources since targets will be set before detailed analysis takes place.
- Arrangements should be made to resolve potential conflicts among the central agencies responsible for the Plan.

3.37 The Departmental Strategic Plan. The Departmental Strategic Plan is the departmental equivalent of the government-wide Fiscal Plan. It is clear that the Commission sees the Departmental Strategic Plan as emerging from the Fiscal Plan, not as being part of it. This is an important distinction. The preparation and review of Departmental Strategic Plans should provide an opportunity for the Government to clarify objectives before departments set out on the detailed budgeting exercise. The danger of a bottom-up budgeting exercise can be avoided if the Departmental Strategic Plan is prepared after the limits in the Fiscal Plan are settled. Much of the information conveyed in the

Departmental Strategic Plan should also be provided to Parliament in support of the Estimates.

3.38 Operational plans and budgets. The Lambert Commission calls for departments to identify their operational goals in a supporting memorandum to the Estimates. This is the next step in translating strategic plans into budgetary documents that can be used for management control purposes. Any significant improvement in the content of the Estimates demands that performance data can be used to explain financial needs. The supporting memoranda will be useful sources of performance data for telling Parliament in the Estimates what results it can expect from proposed expenditures.

3.39 The Financial Management and Control Study found that Program Forecasts were not being followed up by the type of operational and financial planning that would provide a basis for measuring management performance. Our 1976 Report concluded that "instead of being the cornerstone of the system for managing and controlling financial resources, it (planning) is a separate process primarily designed from the departmental viewpoint to obtain additional resources and from the central viewpoint to allocate available resources. The resulting documents are inadequate as action plans since they do not describe what is to be done, who is to do it and what resources are required for the purpose." Why? Because broadly defined plans are seldom properly linked to detailed operational plans and budgets for putting them into effect. Plans and budgets all too often are a planning or financial officer's interpretation of what they expect the department to do, often bearing little resemblance to what managers actually plan to do.

3.40 Operational plans and budgets should be prepared by each organizational unit having responsibility for spending public funds. They should, where appropriate, forecast:

- program results (the benefits to be achieved) to provide a means of measuring and monitoring program effectiveness;
- operational outputs (the quantities of goods or services to be provided) and their estimated costs, based on standards, experience, or established norms, to provide a reliable target for measuring and monitoring management efficiency; and
- resource requirements (personnel, goods and services) to provide a basis for planning the economic acquisition of these resources.

These plans and budgets should agree with the total Estimates requested by the department, within the limits imposed as a result of the Fiscal Plan.

3.41 Effective financial management and control in large, decentralized organizations require operational plans and budgets which compare proposed with

actual results in terms of both spending and performance by each manager responsible.

3.42 Non-tax revenues. Canadians receive many services for which they pay part or all the costs. These include postal services, licences, permits and other privileges and services. The departments concerned have the primary responsibility for assessing revenue policies and for identifying any rate changes. The Financial Management and Control Study identified a tendency to defer consideration or action to revise revenue rates and therefore recommended that departments assess such policies annually and make recommendations for consideration by the Treasury Board.

3.43 Non-tax revenues are an important element in the operational plans and budgets of some segments of the Public Service. The relationship between revenues and expenditures may be an important indicator of performance. The Estimates process provides an appropriate occasion for reviewing and revising revenue policies.

3.44 Control of budgetary processes. The Financial Management and Control Study criticized departmental and central agency budget reviews. The lack of follow-up of actual expenditures and results meant that an important means of assessing the quality of budgetary data and analysis was lost. The Financial Management and Control Study was critical of the reliability and quality of information in budgets, the systems for documenting and communicating procedures and decisions, and the training and supervision given to participants in budgeting processes.

3.45 Since budgetary systems provide the basis for accountability, they should be subject to controls designed to assure the completeness and reliability of expenditure and performance information. Control techniques should include manuals, training, supervision, independent checking, filing and control of supporting documentation, internal checklists, questionnaires, methods of documenting decisions, and signatures of persons responsible for key steps in the processes.

3.46 Audit criteria. *To provide a sound base for review and control of expenditures by management, the Government and Parliament, the Estimates and other budget processes should:*

- *establish objectives and expenditure limits or guidelines before detailed budgeting begins;*
- *produce explicitly in operational plans and budgets the expected performance to be achieved and the estimated costs of each responsible manager;*

- *facilitate review of revenues as well as expenditures; and*
- *include adequate review, documentation, training and procedural controls to ensure the quality of the information.*

Budgetary Control and Financial Reporting Systems

3.47 The decentralization of management responsibility and authority brings with it the need to establish clearly the accountability of managers at the outset and to maintain this accountability by periodic comparisons of actual with planned performance. The absence of effective systems for these purposes, both centrally and departmentally, was one of the major shortcomings revealed by the Financial Management and Control Study.

3.48 Appropriation and allotment controls. The Financial Administration Act establishes a minimum standard of control to prevent payments in excess of the limits authorized by Parliament and the Government. The appropriations provided for in the Estimates may be subdivided into allotments by the Treasury Board. The Act requires that payments and commitments to make future payments be recorded in relation to each appropriation and allotment to help ensure that the limits are not exceeded. Formal systems for recording expenditures and commitments in relation to appropriations and allotments may help prevent over-spending, but they offer little assurance, by themselves, that funds are spent prudently throughout the year or for the purposes originally intended and approved. Nor do they provide any indication of management performance. Therefore, they need to be supplemented by alternative controls established through periodic financial reporting.

3.49 Control through periodic variance reporting. Effective budgetary control systems compare actual costs and operational performance to those planned so that deviations can be spotted for investigation and action. Comparisons are made at appropriate intervals -- for example, monthly or quarterly, depending on the circumstances -- with variances being explained on an exception basis. In addition to helping managers to manage, such reports help maintain the accountability of managers throughout the year with a minimum of difficulty and without unwarranted interference.

3.50 For such systems to be effective, the matters to be reported should be at a level and in a form that results in valid comparisons. Performance must be measured at the level where tangible results can be identified. If financial and performance data are to be compared with each other, cost information is needed, showing expenditures properly attributable to the period rather than the payments or commitments that happen to have been made in the period. The Lambert Commission points out that present accounting methods frustrate any satisfactory assessment of management performance because they inaccurately report costs.

3.51 Audit criteria. *To help ensure that the intentions of Parliament and the Government are carried out, budgetary control systems should be set in place and managed to:*

- *prevent parliamentary and government spending authorities from being exceeded; and*
- *compare and report planned and actual costs and performance within the fiscal year.*

Accounting Systems

3.52 Departmental responsibility for accounting systems. The Glassco Commission concluded in 1962 that no one accounting system could meet the requirements of both the Government and its individual departments and agencies. In 1969, Parliament passed amendments to the Financial Administration Act, accepting the Glassco recommendation that departments be responsible for designing and maintaining their own accounting records. This follows practices in the United Kingdom and United States where accounting functions have not been centralized.

3.53 Our studies have shown that departments have not introduced the type of accounting systems envisaged by Glassco, and deficiencies in existing systems are a major impediment to improving other elements of financial management and control. Most departments have continued to use the central systems of the Department of Supply and Services (DSS). This use of DSS is at least partly explained by the fact that users are not charged for the service. The ability of departments to use the DSS system effectively has varied. Many departments have established or are developing their own systems. They record transactions from copies of documents sent to DSS and produce reports which supplement or duplicate those they continue to receive from DSS. There is now available a new generation of small, high-speed, high-capacity computers at significantly lower cost. These will facilitate departments establishing their own accounting systems, but will lead to duplication unless departments properly integrate their systems with the central system.

3.54 These findings prompted the Office to recommend, in 1975, a study to determine the advantages and disadvantages of greater decentralization of the accounting function. Although studies have been conducted since 1975, the Lambert Commission says the possibility of extensive decentralization has not been adequately considered. The Commission recommended that "departments be fully responsible for the design and upkeep of their own accounting systems."

3.55 Departmental requirements. Departments need accounting systems that provide managers with useful cost and performance information as a reliable basis for analysis and budgetary control. The accounting systems of Government are essentially cash-based and, as reported by the Lambert Commission, give

"little regard to when the costs actually contributed to program output." Systems need to be designed primarily to meet the needs of operational managers who want information to help them monitor, analyse and control their costs and performance. In the widely dispersed and highly variable operations of Government, it is unreasonable to expect that a central system could meet the accounting needs of many levels of management and central agencies at the same time.

3.56 Central requirements. The DSS system is primarily designed to satisfy central requirements for:

- operating the Consolidated Revenue Fund;
- reconciling accounts with paid cheques and other instruments;
- maintaining the central fiscal accounts of Canada;
- producing the monthly Canada Gazette statements;
- preparing and publishing the annual Public Accounts; and
- providing such information as central agencies or departments may request.

These requirements are now satisfied as a by-product of handling, recording and summarizing the myriad cash and other transactions through the Consolidated Revenue Fund. The Lambert Commission stated that the alternative of deriving this information as a by-product of departmental systems had not been explored and recommended that "departmental accounting systems be designed to provide the information required by central agencies accurately and promptly."

3.57 Audit criteria. *To satisfy both departmental and central agency needs, accounting systems should:*

- *be a departmental responsibility;*
- *satisfy managers' needs for complete and timely reporting of costs and performance; and*
- *provide for the essential requirements of central agencies as a by-product of these systems.*

Control of Transactions and Records

3.58 Background. Financial systems include internal checks and accounting controls to ensure the completeness and accuracy of all financial transactions and of all financial information, and to confirm that transactions have been properly authorized.

3.59 The means of applying the techniques of control are relatively complex, but the fundamental principles are simple. The Financial Management and Control Study reported that existing control procedures were overly dependent on the experience and integrity of the employees involved, and on inefficient and repetitive checking. Weaknesses result in unreliable financial information and expose departments to the risk of undetected errors and fraud.

3.60 The methods of establishing and maintaining control over transactions and records have been established in Treasury Board guidelines. Until departments have competent, experienced comptrollers and properly trained financial staff, these weaknesses can be expected to continue.

3.61 Segregation of duties. A general principle of control is that there should be a careful segregation of duties in the delegation of authorities, assignment of responsibilities and design of systems. The objective is to ensure that, without unnecessary duplication of effort, one staff member or one element of a system maintains an effective, independent check on another. This principle should be applied in approving and checking transactions in personnel, materiel or other non-financial systems used for measuring performance, as well as for recording and reporting expenditures and revenues.

3.62 Completeness controls. A second general principle is that physical, numerical or accounting control over transactions and records should be established as early as practicable in a system and maintained through all stages of processing. The objective is to ensure that information on transactions is not accidentally lost, deleted or amended during processing. For example:

- The recording of a document in a register, before it is approved, establishes a control that can be used to ensure that the document is not subsequently altered or lost at a later stage in processing.
- Recording the totals of inventory and accounts receivable transactions in control accounts in the principal accounting records can provide a check on the completeness of more detailed subsidiary systems.

3.63 Evidence of control. Where a control is required, evidence that the control has been performed should be established in subsequent steps in the system. This evidence identifies responsibility, avoids needless repetitive checking, and provides assurance to supervisors, managers and auditors that important controls are not being omitted. This applies to all levels of control in the system, whether over specific transactions or over reports used by senior officials.

3.64 Audit criteria. *To help ensure the completeness, accuracy and authority of financial transactions and of systems and information, all financial and financially-related systems should have:*

- *an appropriate segregation of authorities and of duties;*
- *controls established as early as practicable in the system; and*
- *clearly documented evidence that all control functions are performed.*

Government Action

3.65 The Comptroller General has functional responsibility for financial and other management systems and controls, including performance measurement and program evaluation systems.

3.66 In September 1978, the Comptroller General launched a survey of present and planned financial management practices and operational plans and controls in departments. This survey, Improvement in Management Practices and Controls (IMPAC), is designed, as the Comptroller General puts it, to "take the temperature" of the financial and management control systems in Government.

3.67 The IMPAC surveys have already been completed for 20 major departments. At the time of printing this Report, ten of them have developed "action plans" outlining the means of achieving improvement. Of these, three have been agreed between the Comptroller General and the department. Each plan provides a range of interrelated projects, involving many participants and different disciplines, to be completed within prescribed time schedules. The action plans were designed by the departmental managers themselves. The Comptroller General's approach is to promote improvements by helping managers plan and implement their own management systems. This is an approach that is welcomed by the Audit Office. It attempts to answer the Lambert Commission's warning against developing "a plethora of new regulations that contribute little to the improvement of departmental management." Achievements will be the true test of this approach. In the next 12 months, the Audit Office will begin monitoring achievements against the explicit milestones provided for in the action plans.

REPORTING TO PARLIAMENT

REPORTING TO PARLIAMENT

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REPORTING TO PARLIAMENT

Introduction

4.1 Chapter 2 defines the reporting to Parliament component of comprehensive auditing as:

"an evaluation of the nature, content, adequacy, reliability and timeliness of financial and related non-financial information presented in reports to Parliament. The principal formal reports to Parliament include the Estimates, the Public Accounts and the Auditor General's annual Report."

4.2 This Chapter outlines the form, content and quality of the information the Government should provide to Parliament. The current information provided by the Government is totally inadequate. The present Estimates do not help Members of Parliament understand the plans for spending, and the present Public Accounts do not explain the reasons for variances from planned results. In short, the information currently supplied to Parliament by the Government denies Members the facts that could help bring about greater and much-needed accountability.

4.3 The accountability problem. The deficiencies in the Estimates and Public Accounts cause problems not only for Members of Parliament but also for this Office in carrying out its responsibilities. Section 7(2)(c) of the Auditor General Act calls for the Auditor General to report any cases where "money has been expended other than for purposes for which it was appropriated by Parliament". The present form of the Estimates provides little certainty concerning the nature of the expenditures that appropriations are intended to cover. The wording of appropriations is too general. Supporting information fails to provide explicit, detailed statements of objectives, activity descriptions and other information that are needed by the reader to understand the interpretations departments place on the purposes Parliament intended its appropriations to cover. There is too much room for managerial maneuvering about the meaning of words. Better information is needed if managers are to be held accountable.

4.4 The Financial Management and Control Study. Our 1975 Report recommended improving the Estimates and Public Accounts. It noted that Parliament's control over government expenditure had been reduced over the years because appropriate supporting information was not provided to compensate for the reduction in number of votes and the broadening of their wording. The Financial Management and Control Study pointed out that the Estimates did not state the proposed results of government programs, failed to explain changes in spending levels from year to year, and did not disclose future cost and economic assumptions underlying expenditure figures. It cited deficiencies in the way votes

and programs were structured, in how the objectives of programs were explained, and in the way objects of expenditure were shown. Almost all these problems still exist today.

4.5 The 1975 Report also suggested changes in the Public Accounts to reduce bulk and repetition of data, to match appropriate portions of the content with that of the Estimates, to integrate it more closely with departmental annual reports, and to add narrative explanations and performance information. The 1975 Report also identified the need to improve the departmental management information systems that produce the information ultimately provided to Parliament. Chapter 3, Financial Controls, discusses these underlying systems.

4.6 Improving the financial information Parliament receives. In 1978 we drew together all our previous work on the Estimates. We prepared illustrative Estimates for six departments and agencies selected as a representative sample of the wide range of government activities. The 1978 annual Report stressed that improving accountability depends on improving the Estimates: "What is required is a clearer description of program goals, the means by which they are to be achieved, how the responsibility for achieving them is to be assigned and how program results are to be measured." Chapter 6, entitled Improving the Financial Information Parliament Receives, then examined the purpose, structure, and content of the Estimates and provided examples of alternative ways of making the Estimates a more useful accountability document.

4.7 Recent progress. Since tabling last year's Report, a number of encouraging events have taken place:

- In February 1979, the President of the Treasury Board made a commitment in the House of Commons to improve the Estimates.
- In March 1979, the Public Accounts Committee, after a thorough examination of Chapter 6 and several of the illustrative departmental Estimates, issued its Third Report which contains guides for the Government in developing revisions to the Estimates.
- Also in March 1979, during the Public Accounts Committee hearings, the Secretary of the Treasury Board confirmed the Board's commitment to prepare revised 1980-81 Estimates for three to five departments on a pilot basis, and to introduce a complete revision of the 1981-82 Blue Book a year later, including both a summary volume and separate departmental Estimates.
- In April 1979, the Royal Commission on Financial Management and Accountability (Lambert Commission) released its Final Report which contains many recommendations for improving the information provided to Parliament. By and large, these recom-

mendations are consistent with the Report of the Public Accounts Committee and our 1978 Report.

- The Comptroller General continued his program for reviewing the management practices of departments under the IMPAC studies outlined in Chapter 3. A major component of IMPAC addresses departmental information systems that support the Estimates and Public Accounts.

Underscoring these developments is the increasingly widespread belief that Members of Parliament, acting for the public, have a right to better information to help them assess the plans and performance of the Government.

4.8 This Chapter suggests the basic requirements that the Estimates and Public Accounts must satisfy. We first state some general criteria for useful reporting. We then apply them to the form and content of each document and suggest some more specific criteria. Our suggestions include criteria for controlling the validity of the information in these documents since their utility depends so much on the integrity of underlying systems.

Criteria for Useful Reporting

4.9 We reviewed a number of recent studies by professional accounting bodies which seek to identify the attributes of effective reporting. Although the studies were oriented primarily toward private sector reporting, the characteristics of good reporting apply to all organizations. The seven most widely accepted attributes are: relevance, completeness, comparability, understandability, objectivity, reliability and timeliness. These are explained briefly to lay the foundation for the more specific criteria for the Estimates and Public Accounts that follow.

4.10 Relevance. In reporting, the information needs of Parliament should take precedence over the needs of any other users. Formats used and specific information provided should reflect the individual characteristics of each department and agency. Exceptional features should be highlighted if they warrant Parliament's attention because of their size, relative change, variance with budget, or sensitivity.

4.11 Completeness. Users should receive a comprehensive, but digestible, picture of the Government's activities. The information should provide an understanding of the activities, the total resource requirements and the organizations responsible for carrying out each government program. Where possible, detail should be disclosed, or at least made available on request, at the activity element level where results can be matched with resources. How the information is built up should be made known so that the availability of supporting information is readily apparent. The resources devoted to related programs of other government departments should also be reported.

4.12 Comparability. Financial and performance information should be expressed in terms that enable the user to compare actual results with those forecast and with trends of previous years. Comparability requires reporting in a consistent way from year to year or explaining the effect of changes in reporting practices. Where changes are made, data from previous years should be restated to give retroactive effect to the change.

4.13 Understandability. Judgment must be applied in striking a balance between disclosing too much detail and too little information, both of which would confuse the reader. The aim is to provide information in a form that makes efficient use of a reader's time, by directing attention first to summary information and then to those selected details likely to be most helpful. Narratives in clear language should be used to explain the financial and non-financial data.

4.14 Objectivity. The information presented should be as free from reporting bias as possible; the test is whether others would report the information in the same way. Reporting principles and practices and underlying assumptions should be clearly disclosed.

4.15 Reliability. Controls over the systems producing information should be adequate to give users confidence in the reasonableness and validity of the information.

4.16 Timeliness. The information, whether forecast or actual, should be provided in time to be useful.

4.17 Many of these qualities are now lacking in the Estimates and Public Accounts. Few reports could satisfy all these criteria all the time. Often a balance has to be struck where they are not mutually compatible. Nevertheless, the first four -- relevance, completeness, comparability and understandability -- should govern the form and content of the Estimates and Public Accounts. The remaining three -- objectivity, reliability and timeliness -- determine the quality of information in the Estimates and Public Accounts.

4.18 Audit criteria. *To be useful, information reported in the Estimates and Public Accounts should be:*

- *relevant;*
- *complete;*
- *comparable;*
- *understandable;*

- *objective;*
- *reliable; and*
- *timely.*

4.19 All the reporting recommendations we made in previous annual Reports were intended to improve the Estimates or Public Accounts in one or more of the respects listed above. The following sections summarize more specific criteria for each document.

The Form and Content of the Estimates

4.20 The Lambert Commission noted that the Estimates "Blue Book" contains "over 1,200 monotonous pages of spending proposals from a confusing array of departments and agencies", and stated that:

"In its present form, the Blue Book can be a useful reference tool but the format provides no means of conveying the individual flavour of a department's activities. Moreover, it fails to provide information in a manner conducive to effective parliamentary review. Only with difficulty can the information be related to the people, places and things that are of interest to parliamentarians."

To correct these problems, the Commission recommended a Consolidated Estimates volume and separate departmental volumes. As for the content of the Estimates, the Commission clearly identified one of the major deficiencies in the following words: "They do not provide Parliament with adequate and clearly presented information stating why the money should be spent, how it should be spent, and what the benefits of so doing would be." The Commission called for the following actions to remedy this deficiency:

- unequivocal descriptions of programs, activities and sub-activities, and of the objectives and sub-objectives they are intended to meet;
- presentation of a program's expenditures in the form of the aggregated costs of a series of meaningful activities and sub-activities, each linked where possible with a measurable result, so that efficiency and effectiveness can be assessed by comparing actual to planned performance;
- full costing by incorporating all expenditures that can be identified with activities contributing to program outputs, as well as including separately those costs that cannot be allocated directly; and
- quantitatively stated objectives for programs and activities wherever possible.

These proposals, as well as other recommendations, are fully reflected in the key requirements which follow.

4.21 Separate consolidated and departmental volumes. The Estimates should provide a comprehensive picture of all government spending. For clarity and emphasis, the summary volume should be separate from most details of departmental spending. Separate departmental volumes would permit departments to include information uniquely relevant to their particular responsibilities without the irrelevant detail now required by the standard tables. Departmental and consolidated volumes nevertheless should be compatible both in their reporting principles and in having links between volumes.

4.22 Comparable disclosure of annual and statutory authorities. The Estimates should give equal weight to both annual and statutory authorities. Together, these authorities provide the basis for financial control in that money cannot be spent for purposes or in amounts not receiving prior parliamentary approval. To be comprehensive as well as clear, both statutory and annual appropriations should be included in the totals analysed in the Consolidated Estimates, a requirement also stated by the Lambert Commission. At present, major statutory programs, like Family Allowances that involve billions of dollars, are shown in much less detail than annual appropriations.

4.23 Other anomalies in the presentation of appropriations should be eliminated. Although they often involve hundreds of millions of dollars, appropriations authorizing loans, investments and advances now are shown simply as one-line entries, like statutory items, without the information usually supporting other appropriations. In all cases the amount of information should match the importance and significance of the expenditure.

4.24 Structure of information disclosed. To be understandable, the Estimates should "explode" in progressively unfolding detail. Both the consolidated and departmental volumes should provide and integrate financial and non-financial information to help the reader understand the expected results of government spending. A department's Estimates should be divided into separate votes only where managerial responsibility can be separately identified and where the purposes of the expenditures are different enough to warrant Parliament placing limits on the amounts that may be spent. The Public Accounts Committee specifically called for ending the convention of splitting programs into operating, capital, and grants and contributions votes unless exceptional circumstances prevail.

4.25 The Government accounting system permits financial data to be classified by three separate characteristics which can be used not only as the basis for appropriations but also for information explaining them. Performance information should be collected and classified in the same three ways. These are by:

- activities which identify the separate means of attaining a program's objectives;
- responsibility centres which identify the organizations responsible for carrying out the program; and
- objects of expenditure which identify the resources the organizations require to execute the program's activities.

4.26 Disclosure of purposes of proposed expenditures. Functions, programs and activities now displayed in the Estimates are supposed to show Parliament and the public the proposed uses of acquired resources. They do not do so. More information and perhaps new classifications are required to show the purposes for which the funds are being sought.

4.27 The Consolidated Estimates should talk about government spending in terms of broad functions or policy areas. Under each function should be all the programs from various departments that play a part in achieving the purpose or objectives of that function. Expenditures are now grouped at the beginning of the Estimates volume under functional headings such as "Economic Development" and "Foreign Affairs". These headings may have to be changed to match the new expenditure management system, so that there will be one function for each "envelope" of money assigned to a Cabinet committee for allocation among the various departmental programs in that function. When looking at the Consolidated Estimates, Parliament should be able to see what percentage of spending went to each function and to each departmental program within that function, and to ask the Government to justify its allocations.

4.28 The emphasis in departmental Estimates volumes should be on programs, activities, sub-activities, and activity elements. These terms have been defined by the Treasury Board. A department may have one or more programs. A program is a group of related activities having a common objective. Each activity is divided into sub-activities and activity elements. An activity element is the lowest level of classification having an identifiable output for which costs can be meaningfully calculated.

4.29 The purposes of expenditures at the sub-activity and activity element levels are not now shown in the Estimates. Instead, sub-activities and activity elements are grouped together and their purposes described in much more nebulous terms at the activity and program levels. This is not sufficient. It would help Parliament to understand government spending better if the purposes and results could be described, not in generalized and intangible terms, but in down-to-earth ways that identify the significant tasks individual public servants perform. The Estimates should therefore disclose information down to the activity element level. Where this is too detailed, the Estimates should explain how financial and performance data are summarized so that the reader knows where to obtain additional detail if he wishes.

4.30 At present, the Estimates neither contain precise objectives nor display how program inputs result in the achievement of objectives. The Estimates should:

- identify and state program objectives as precisely as possible;
- distinguish among immediate, intermediate and ultimate levels of results;
- identify what results could and should be measured and reported to Parliament;
- show the connections between work processes and results, thus allowing economy and efficiency issues to be identified; and
- give a more complete picture of each program through the identification of the contributions of component activities to the achievement of the program's objectives.

The "accountability model", illustrated in Chapter 15, Department of National Revenue - Customs and Excise, sets out this kind of information for the Excise Branch in graphic form.

4.31 Disclosure of organizational responsibility. In Public Accounts Committee hearings on the form of the Estimates, the Treasury Board Secretariat questioned the degree to which responsibility information should be disclosed. The Committee, recognizing that this was a matter being considered by the Lambert Commission, agreed it should be further reviewed once the Commission's report had been made public.

4.32 The Commission recommended that:

"deputy heads of all departments ensure that their organizational structures clearly reflect that responsibility centres are directly related to programs, activities, or sub-activities that can be identified with particular resources and, where possible, with specific measurable outputs."

4.33 What happens, however, where an organization performs a number of activities with diverse, if not conflicting, objectives? Unless the organization has systems to allocate costs in relation to measurable outputs, Estimates displays by activities or sub-activities may be arbitrary and unreliable. Organizational costs by branch, division or office should be shown if that is the lowest level at which expenditures can be reliably explained by purpose.

4.34 Sufficient information should be included in the Estimates to show who is accountable for the activities disclosed.

4.35 **Disclosure of resource (objects of expenditure) requirements.** Standard objects of expenditure, such as "personnel", "utilities", "materials and supplies" and "transportation and communications", describe the nature of the goods and services the Government buys. They are useful for understanding activities and controlling total costs, and for analysing the impact of Government expenditures on various sectors of the economy.

4.36 Statistics Canada has identified the numerous objects it finds useful for economic analysis purposes. Each department, in turn, identifies those objects of expenditure, usually called "line objects", it finds useful for reporting to management. Treasury Board now requires these objects, which vary from program to program, to be capable of being related to the economic objects, as well as being aggregated into the 13 standard objects used in Estimates presentations. The Public Accounts Committee recommended that the relationships between economic, line and standard objects of expenditure should be disclosed in the material supporting the Estimates so a Member of Parliament would know what further detail could be obtained on request.

4.37 In the departmental Estimates there may be some situations where the nature or amount of expenditure on a particular program calls for greater detail on resource requirements than the 13 standard objects. For example, if "professional and special services" is large, it should be divided to show separate amounts for the various professional disciplines. Some departments have started to provide this type of additional detail in their Estimates.

4.38 In addition to the standard object table, the Estimates now show further details on three standard objects in separate tables -- personnel, transfer payments, and capital. Personnel is shown in all cases, while the other two tables are shown only if the amounts are significant.

4.39 Personnel costs are often the single most important component of departmental spending. Personnel information should disclose useful data for addressing the economy issue, such as trends in both actual and planned person-year use, profiles of the levels and types of staff, and average salaries. Wherever appropriate, the departmental Estimates volumes should also disclose the staff in each activity or sub-activity, since this shows a measure of efficiency if performance information is also reported.

4.40 Tables showing grants, contributions and other transfer payments, and capital expenditures should also provide the detail requested by the Standing Committee on Public Accounts -- for example, distribution by provinces and categories of use. In addition, the future costs of current commitments and projects should be displayed.

4.41 Supplementary analyses. The three types of disclosure described above -- by purpose, responsibility centre and objects of expenditure -- are by no means exhaustive. Supplementary analyses should be provided to meet special information needs. For example, government-wide spheres of activity, such as "Government Activities in the North", should be reported in the Consolidated Estimates, while the departmental Estimates might show common or related programs carried out by several departments, such as Canada's "Official Development Assistance" expenditures made by the Canadian International Development Agency, the Department of Finance, and the International Development Research Centre. Once each department's Estimates are in a separate volume, it will be essential, for the convenience of the reader, to refer to related work being carried out by other departments.

4.42 Performance information. To complement expenditure information, the Estimates should include information showing expected performance. For example, economy measurement involves determining unit costs through comparing expenditures with quantities of people, materials and services acquired. Efficiency measurement involves comparing outputs, such as the number of customs inspections, with their cost. Effectiveness measurement involves comparing results to targets in terms of creation of new jobs, housing, etc. Wherever possible, performance information should provide statistics about the quantities of results produced, and narratives should be used where measurement is not cost-effective. A wide range of performance information is necessary if the Estimates are to convey information useful for determining the value to be obtained from the expenditures proposed. By starting with readily available data, progress can be made while techniques are developed to measure more complex programs.

4.43 Cost information. To facilitate comparing financial with performance data, financial information should be cost-based to show the relationship between outputs of goods and services and the expenses of producing them. Unit costs are an essential ingredient in assessing performance. Both the Lambert Commission and the Public Accounts Committee called for the allocation of all directly attributable costs, with the Commission also calling for allocation, although separately, of overhead costs. If discrete performance data can be identified, it should be possible to cost them.

4.44 Comparative data. Financial tables for each program should show, separately, amounts to be voted and forecast expenditures, and should compare the Estimates year with the current and prior years. Summary tables should project expenditures two or more years beyond the Estimates year. Longer historical comparisons may be appropriate where there are unusual or dramatic changes in the levels of spending. To complement statistical and financial trend data, there should be narrative explanations of the reasons for changes in past years and the assumptions underlying changes in future years.

4.45 Tax expenditures. For consistent historical comparisons, information is necessary about "tax expenditures" -- the effects of selective tax cuts and tax

transfers. To accomplish various policy objectives, the Government often has to choose between a reduction in taxation and an increase in expenditure as alternative ways of meeting the needs of particular segments of society. If the tax reduction method is chosen, the amount of foregone revenue should be disclosed as "tax expenditures" in the Estimates for the year of the change. If it is not, comparisons of one year's expenditures with another are not valid. For example, the recent child tax credit plan partly replaced family allowance payments and, although \$277 million of benefits continue through indirect payments to individuals, these amounts are excluded from the Estimates. Another example of "tax expenditures" is the \$259 million increase in tax transfers under the Federal-Provincial Fiscal Arrangements and Established Programs Financing Act, 1977, S.C. 1976-77, c. 10. The same disclosure problem arises with the Federal Government's reimbursements of \$781 million to the provinces for provincial sales tax reductions. If, for example, these same programs were delivered as expenditures rather than as tax transfers and tax reductions, total government expenditures would have increased by approximately 12.4 per cent in 1978-79 instead of the 9.4 per cent stated in the Public Accounts.

4.46 **Audit criteria.** *To satisfy widely accepted reporting requirements, the revised Estimates should:*

- *give an overview in a consolidated volume of the Government's expenditure plans;*
- *provide departmental Estimates volumes compatible with the consolidated volume but flexible enough to display unique departmental activities;*
- *display a balanced analysis of government spending plans, integrating statutory authorities, appropriations for loans, investments and advances, and all other appropriations;*
- *provide functional, program and activity information relating costs to purposes;*
- *give activity information down to the level of detailed projects and processes for which both cost and performance information can be developed;*
- *describe the contribution of each program component to the immediate, intermediate and ultimate objectives of the program;*
- *show how responsibility for activities has been assigned;*
- *provide financial and performance information by organizational responsibility, wherever this cannot be reliably explained through the activity structure;*
- *summarize object-of-expenditure information in the Consolidated Estimates, and provide standard and line objects in departmental Estimates;*

- *display personnel expenditures, grants and contributions, and capital expenditures in appropriate detail;*
- *provide supplementary analyses, showing the total costs of selected activities involving more than one department;*
- *include performance information in quantitative or narrative form;*
- *fully cost program outputs;*
- *separately provide information comparing requested spending authorities and forecast expenditures;*
- *give additional historical comparisons and future projections, along with appropriate explanations of trends and assumptions; and*
- *disclose "tax expenditures" and their effect on comparative data.*

The Form and Content of the Public Accounts and Annual Reports

4.47 The Lambert Commission describes the Public Accounts as "dreary, bulky and confusing," a document not useful for calling anyone to account. Few will quarrel with these conclusions. The Commission also points out that neither the deputy heads nor senior financial officers formally acknowledge any responsibility for data on their departments.

4.48 The Commission finds even less to praise in annual reports, saying they contain only what departments wish to publicize and do not render a complete account of how departments have fulfilled commitments made in the Estimates.

4.49 The Commission proposes that a department's annual report become the key accountability document, and that each report be referred automatically and permanently to the standing committee that reviews the department's Estimates. It also proposes that publication of Volume II of the Public Accounts be continued. This appears to be unnecessary duplication.

4.50 We favour making appropriate revisions to Volume I of the Public Accounts so that it becomes a counterpart for the Consolidated Estimates. Volume I should continue to be referred to the Public Accounts Committee. However, much of the departmental information now contained in Volume II of the Public Accounts might better be provided in departmental annual reports. The department's accountability would be clearly established, particularly if the summary statements are signed by the deputy head and by the departmental comptroller. Such signatures are now standard practice in the United Kingdom under the "accounting officer" concept. In fact, in the United Kingdom, the

Comptroller and Auditor General also attaches his certificate to these departmental accounts. Although this was not proposed by the Commission, Parliament might wish to consider the desirability of this practice.

4.51 The Public Accounts and annual reports are important links in completing the chain of accountability, and for this reason they should match as closely as possible the form and content of the Estimates. Rather than repeating in this section some of the detailed content requirements specified for the Estimates in the section above, only the highlights and points of difference will be described here.

4.52 Consolidated Public Accounts. Volume I of the Public Accounts should be able to stand alone as a document that summarizes the financial affairs of the Government in the same way as would the Consolidated Estimates and Fiscal Plan proposed by the Lambert Commission. The summary financial statements of Canada in Volume 1 should be in sufficient detail for users to gain an overview of the financial affairs of Canada. The financial statements should be supported by additional information providing further details that users of the financial statements may require. Details unique to the department should be left to departmental annual reports. Much of the information should be the same as in the Consolidated Estimates and actual figures for the year should be compared with the Main Estimates and any variances explained.

4.53 Departmental annual reports. Departments should provide annual reports which are signed by the deputy minister and the departmental comptroller. Like the departmental Estimates volumes, they should be flexible in form but compatible with the consolidated Public Accounts. Emphasis should be placed on reporting actual performance and explaining variances with plan. Special attention should be paid to providing explicit, precise performance information wherever possible. In addition, the Public Accounts should provide further detail than the Estimates on such items as the recipients of grants and loans, personnel, and the way work was organized at the departmental level.

4.54 Audit criteria. *To reflect widely accepted reporting attributes, the Public Accounts should:*

- *have a consolidated volume containing the financial statements of the Government of Canada, information like that in the Consolidated Estimates, and such other summary information as may be appropriate; and*
- *provide separate departmental annual reports containing accounts consistent with, and expanding on the Estimates, signed by the deputy head and the departmental comptroller, and reporting actual data versus planned performance and expenditures, with explanations of variances.*

Reliability of Information in the Estimates and Public Accounts

4.55 The reliability and validity of the information in the Estimates and Public Accounts depend on the quality of the information in the underlying financial and performance information systems of departments and agencies. Operational planning and budgetary systems provide information for the Estimates, and accounting systems and performance measurement systems provide information for both the Estimates and the Public Accounts.

4.56 The quality of planning and budgetary information. According to the Lambert Commission, a major reason for deficiencies in the quality of information presented to Parliament is that "the Estimates are not used as part of the operational planning process in departments." A manager, drawing up plans for the Estimates, needs to know the operational goals that are to be achieved, the most recent actual expenditures, the most up-to-date picture on performance or results, and some indication of past and future trends. The data should be reliable, timely, objective and complete. In a well developed system, information with these features is ordinarily obtained from the financial and operational systems used by managers.

4.57 Managers have to base their projections for the future on their interpretations of past trends, their targeted improvements in operations and on their knowledge of the Government's policy objectives and external events that will influence their attainment. This requires policy objectives to be communicated clearly and quickly through the organization, and managers to make assumptions about what is likely to happen. All assumptions should be reviewed to ensure their objectivity, and they should be stated in the Estimates so parliamentarians themselves can assess the quality of the spending estimates. Variances caused by assumptions not coming to pass should be explained in the Public Accounts.

4.58 The quality of accounting information. The Government's cash accounting system records expenditures when goods and services are paid for, not when they are purchased or used. Such cash-flow information needs to be supplemented by accrual accounting information that shows total costs to permit useful managerial judgments about whether value for money is being achieved. This includes non-cash costs of services provided without charge if costs are to be complete for each activity.

4.59 The quality of performance reporting systems. The revised Estimates and Public Accounts will require the presentation of many different kinds of performance information. Controls will be needed over the reliability, comparability and timeliness of such performance information. Non-financial information, in particular, often flows from sources that are not subject to the usual internal checks and controls of financial accounting records. This should be changed. Non-financial information should be created, as far as possible, as a by-product of systems recording financial transactions if valid information is to be obtained at reasonable cost.

4.60 Defining objectives, results and costs. Treasury Board requires departments to state, as clearly as possible, objectives they are trying to achieve. As noted earlier, these are inadequately stated for programs, and expected results are not shown for their component parts -- activities, sub-activities, and activity elements. Each program and each of its component parts should have outputs that can be compared with costs.

4.61 How programs and their components are defined has an important bearing on the quality of the Estimates and Public Accounts. The objectives of programs and their components should be reviewed periodically by the Government and Parliament. Too often, we have found instances where there is no way of telling whether objectives are ever accomplished or what the cost may be. If programs or their components are changed, departments should ensure that costs and results can be measured and compared for the new objectives and sub-objectives.

4.62 Audit criteria. *To help ensure the quality of the Estimates and Public Accounts, information should:*

- *originate with the operational goals and information systems of managers;*
- *be based on policy objectives communicated clearly and in a timely fashion to all managerial levels involved in planning expenditures;*
- *state assumptions in the Estimates and review them in the Public Accounts;*
- *be based on comprehensive cost-based accounting systems;*
- *be based on performance information systems having controls equivalent to those over financial information systems; and*
- *state program objectives and sub-objectives realistically in measurable terms, specify detailed results and permit costs to be compared with results.*

Government Action

4.63 Almost all the criteria for the form, content and quality of information in the Estimates and Public Accounts that are stated in this Chapter have been raised in our previous annual Reports and many have been illustrated in the demonstration Estimates prepared by this Office. Most have also been explicitly called for by the Public Accounts Committee and by the Lambert Commission. With this background of study, the need now is for the Government to take action.

4.64 As stated in paragraph 4.7, the Secretary of the Treasury Board confirmed that the Board would introduce revised 1980-81 Estimates for three to five departments on a pilot basis and introduce a complete revision of the 1981-82 Blue Book a year later. The necessary studies were to be carried out by a combined work force of the Treasury Board Secretariat and the Office of the Comptroller General, together with appropriate participation by our Office. Furthermore, the studies were to address the content of the Public Accounts and the systems providing the information reported in both the Estimates and Public Accounts.

4.65 The organization of task forces and committees has been in a state of flux until the recent assignment of this responsibility to the Comptroller General in August 1979. There is now an entirely new structure of responsibilities.

4.66 Our role in the studies is to represent the perspective of Parliament and support the development of new material consistent with the terms of reference described in Public Accounts Committee meetings and its Third Report. Our involvement has been less than expected because of delays in organization and progress. As advisers we have been asked for little advice, apart from commenting on an exposure draft illustrating summary Estimates information, and providing a framework for a new form of the Estimates.

4.67 In general, the efforts to date have focused on the cosmetics of a summary Estimates volume instead of on the departmental volumes where real improvements in the information displayed must start. Departmental task forces have not yet been formed to conduct the pilot studies, and we have not seen a plan of action supported by detailed steps to be taken, assignment of responsibilities and identification of milestones and deadlines. At this time, so little has been done that it seems extremely unlikely that the Treasury Board will meet its commitments to Parliament by the time promised.

4.68 The lack of progress in integrating the work on the Public Accounts and the underlying systems with the development work on the Estimates also concerns this Office. This integration is particularly important, as recognized by the Secretary of the Treasury Board in his comments to the Public Accounts Committee on March 8, 1979:

"I need to emphasize the significant time, effort and cost that will have to be invested in ensuring that Estimates revisions are and can be properly tracked in the accounting systems and the performance measurement systems of departments. We have to guarantee that the actual results reflected in Public Accounts can be tied back to the Estimates on a consistent basis. The planning for such changes in departments will become an integral part of the action plans concluded between the departments and the Comptroller General as a result of the IMPAC surveys."

4.69 A number of actions have been taken, or are under way to improve the Public Accounts, including actions arising from the 1975 Study of the Accounts of Canada. These are described in Chapter 5. The IMPAC studies of the Comptroller General are addressing the underlying systems supporting the Estimates and Public Accounts. These various studies have yet to be fully integrated with the work proposed for the Estimates, and much substantive work remains to be done.

4.70 In summary, progress made since March when the Public Accounts Committee concluded its hearings has been disappointing. We are very concerned that the commitments made to the Committee by the Treasury Board will not be met. The publication of revised Estimates may slip a full year. We fully support the priority given Estimates revision in the Speech from the Throne opening the 31st Parliament and we hope that, under the new direction of the Comptroller General, it may still be possible to lay improvements before Parliament within the next year. This Office will certainly assist in every way possible to expedite the process because of our belief that better information for Parliament is critical and indispensable to the better management of public spending. We urge that progress on this important subject be reviewed by the Public Accounts Committee as soon as possible and that the Committee be presented with a comprehensive action plan to enable this program, which is of such vital importance to Parliament, to be monitored effectively.

ATTEST AND AUTHORITY

ATTEST AND AUTHORITY

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ATTEST AND AUTHORITY

Introduction

5.1 The attest and authority component of comprehensive auditing is defined in Chapter 2 as:

"the expression of an opinion on financial statements and the verification of parliamentary and governmental authority for expenditures."

5.2 Terminology for Accountants, published by the Canadian Institute of Chartered Accountants, defines the attest function as "the expression of a professional opinion on financial statements by a public accountant." Usually, this independent opinion assures the reader that the statements are presented fairly in accordance with generally accepted accounting principles consistently applied. Where statements do not meet these criteria, the auditor's opinion will be qualified with appropriate reservations based on the exceptions he has found. Exceptions may include failure to adhere to generally accepted accounting principles, or inconsistencies in their application. The auditor will also qualify his opinion if he has been unable to obtain sufficient evidence or if the scope of his audit has been restricted.

5.3 The audit opinion does not guarantee the absolute correctness of the information reported. It tells the reader whether or not the information is materially misstated or misleading in the view of the auditor. Erroneous or misleading information reported in financial statements is material (significant) if it could affect the decision-making of the reader. Materiality is dependent on the size of the amounts in the context of the statements, and on the extent to which reporting deviates from generally accepted accounting principles. These principles, as applied to business enterprises, are standards of good accounting and reporting practice that have been accepted by the accounting profession, the business community and government. They are standards to which the reader can refer and against which financial statements can be audited. Similar standards, however, have yet to be developed for governments.

5.4 Legislative auditors in Canada and other countries following the British tradition have consistently audited the authority for expenditures. Basic to parliamentary control of the public purse is the concept that all revenues, duties, taxes and other money due the Crown form a consolidated revenue fund, and that all expenditures from that fund be made only on the authority of Parliament. In today's complex government operations, this basic parliamentary control is exercised, in part, through numerous administrative procedures and regulations issued by the Government under authorities granted by Parliament.

Auditing expenditures of public funds to ensure authority by Parliament and compliance with administrative policies and controls is the authority component of the comprehensive audit.

Attest

5.5 The Auditor General expresses an opinion on the annual financial statements of the Government of Canada. These statements, together with the Auditor General's opinion and observations on them, are included in Sections 2 and 3 of Volume I of the 1979 Public Accounts. The opinion on the annual financial statements of the Government does not extend to detailed information presented in other sections and volumes of the Public Accounts, although much of that has been subject to audit.

5.6 The Auditor General also examines and reports on the annual financial statements of 34 agency and proprietary Crown corporations listed in Schedules C and D to the Financial Administration Act. As well, he audits some 50 other entities, including departmental Crown corporations listed in Schedule B to the Act, territorial governments and their agencies, separate funds and special accounts such as the Exchange Fund Account, the Canada Pension Plan Account and the Unemployment Insurance Account. Chapter 18 contains lists of all Crown corporations and other entities examined by the Auditor General and sets out qualifications and other matters in his reports on those entities.

5.7 Attest audits are carried out in accordance with generally accepted auditing standards. These standards call for an evaluation of the internal controls that the auditor relies on in determining the nature, extent and timing of his audit procedures. This may involve assessing and testing financial controls, electronic data processing controls and certain management controls. Thus, attest is related to other components of comprehensive auditing. Attest has a special relationship with the reporting component since the auditor's opinion concerns reported financial information.

5.8 The financial statements of the Government of Canada, unlike those of business corporations, are not designed to measure profits and are thus not subject to the generally accepted accounting principles and standards of disclosure developed for commercial enterprises. This leads to unique and difficult problems in financial reporting by government and in rendering an audit opinion on the Government's financial statements.

5.9 Attesting to the Government's financial statements. The Auditor General reports on the financial statements of the Government of Canada under the provisions of the Auditor General Act. Section 6 of that Act provides that:

"The Auditor General shall examine the several financial statements required by section 55 of the Financial Administration Act

to be included in the Public Accounts, and any other statement that the Minister of Finance may present for audit and shall express his opinion as to whether they present fairly information in accordance with stated accounting policies of the federal government and on a basis consistent with that of the preceding year together with any reservations he may have."

5.10 Section 55 of the Financial Administration Act requires that the Public Accounts include a statement of the expenditures and revenues of Canada for the fiscal year and a statement of such of the assets and liabilities as, in the opinion of the Minister of Finance, are required to show the financial position of Canada at the year end. A Statement of Transactions and a Statement of Use of Appropriations have also been submitted by the Minister for audit under the provisions of Section 6 of the Auditor General Act.

5.11 As in 1978, this year's audit opinion contains reservations on certain stated accounting policies which affect the fairness of the information presented in the financial statements. These reservations highlight inconsistencies in the Government's stated accounting policies that result in the overstatement of assets, the understatement of liabilities and, consequently, the understatement of accumulated budgetary expenditures for the current and prior years.

5.12 In addition to expressing an opinion on the financial statements of the Government of Canada, the Auditor General also makes a number of observations on these statements. These observations comment on the Government's stated accounting policies, including matters raised in reservations to the opinion. The observations comment also on the disclosure of information describing the Government's financial position and its operations.

5.13 **Purposes of financial statements and disclosure of information.** The nature and extent of information reported and how it is presented depend on the objectives of summary financial statements for the Government. Summary financial statements can serve a number of useful purposes. They can, for example, display the total costs of government activities for the year, explain how these activities were financed, and provide a measure of the Government's financial position at the year end. To do so, they should be comprehensive; they should present summary financial information related to all government activities. The statements should also be complete; they should provide all the information needed for them to be understood.

5.14 The current financial statements do not present comprehensive and complete information. They are primarily designed to provide an accounting to Parliament of the financial transactions of the Government as recorded in the accounts of Canada and the Consolidated Revenue Fund.

5.15 The statements do not combine financial information for all organizations and funds that carry out government operations. For example, financial statements of the Exchange Fund Account, the Unemployment Insurance Account, the Canada Pension Plan Account, revolving funds and other similar accounts are not combined with those of the Government. Also, the government statements do not include transactions of Crown corporations that carry on government-type activities financed with public funds, and which are listed in Schedules C and D of the Financial Administration Act. This may have the effect of treating as assets amounts that would have been reported as expenditures on the basis of the Government's stated accounting policies.

5.16 Financial statements and other information concerning these corporations, accounts and funds are available elsewhere in other sections and volumes of the Public Accounts, but this method of presenting information is not always adequate or convenient for a reader who is looking for a comprehensive and complete financial overview of the Government. The Lambert Commission Report observed that:

"The Financial Statements of the Government of Canada appear to be straightforward, but in fact they must be read in conjunction with a long list of notes and observations, detailing explanations, exceptions, and inconsistencies. Even with this supplementary information, it would be difficult for anyone but a skilled accountant familiar with the organization of government to determine the exact amount of the budgetary deficit."

5.17 There is a need to reconsider the current and potential use of summary financial statements and the information they should report. The present statements perform a useful function by providing an accounting to Parliament of the transactions of the Consolidated Revenue Fund on the basis of existing legislation. However, there is also a need for summary financial statements that provide a comprehensive and complete summary of the Government's financial position and operations. Such statements would combine information for all organizations and funds that carry out government operations financed by the public purse.

5.18 **Government accounting principles.** The Government of Canada prepares its financial statements in accordance with its own stated accounting policies. These policies reflect accounting practices that have evolved over the years in the Government of Canada in response to a variety of legislative provisions and administrative conventions.

5.19 As noted in paragraph 5.11, the Government's stated accounting policies contain inconsistencies that affect the fairness of the reported information.

5.20 Most matters described in the reservations were reported in previous years. In response to concerns raised by our Office, the Study of the Accounts of Canada was initiated in 1973. Its Report, issued in 1975, made recommendations to improve government accounting and financial reporting practices. Certain significant recommendations of the Study have been implemented by actions taken in the current year, but further actions are required before our reservations on the financial statements of the Government of Canada can be withdrawn.

5.21 The Lambert Commission stated that many of the financial statements submitted to Parliament are based on accounting practices that are not generally accepted, and in some cases, not even conceptually justifiable. The Commission concluded that, unless firm action is taken by Parliament, the financial statements will continue to lack integrity, to be complicated rather than straightforward, and to be presented in a manner that is not consistent from one year to the next.

5.22 The Government of Canada needs conceptually sound accounting principles that are generally accepted by all users and are consistent with the purposes of the financial statements. Such principles would promote fairness, consistency and comparability of information. They would also provide standards for readers to judge the information presented and criteria against which the information can be audited.

5.23 The accounting profession, working with users, the business community and government, as appropriate, has established generally accepted accounting principles for profit-oriented commercial enterprises. In 1976, the Canadian Institute of Chartered Accountants (CICA) commissioned a study of financial reporting by governments. The study group is made up of an appropriate cross-section of government accountants, financial policy advisers, legislative auditors and private sector accountants. The study is to be completed this year and its findings made public early in the new year. Our Office encourages all such efforts to improve government accounting and reporting standards. We recognize, however, that only the Government has the power to effect the improvements that need to be made.

5.24 **Audit criteria.** *To show the financial transactions and financial position of the Government of Canada, summary financial statements should be provided which are:*

- *comprehensive, including summary financial information on all government activities;*
- *complete, providing all the information needed for them to be understood; and*
- *prepared in accordance with generally accepted and conceptually sound accounting principles appropriate for government.*

5.25 Government action. Since 1976, the Government has implemented most, but not all, of the recommendations of the Study of the Accounts of Canada. Certain significant recommendations that are not yet fully implemented relate to the issues identified in reservations to the Auditor General's opinion on the financial statements. In its First Report, dated February 21, 1979, the Standing Committee on Public Accounts made recommendations concerning each of the issues raised in reservations to the Auditor General's opinion on the 1978 financial statements. The Government has initiated action in response to all the Committee's recommendations.

5.26 This year, reserves were established in the financial statements for asset balances designated for deletion from the accounts. These balances were identified in the Study of the Accounts of Canada and the first reservation to last year's opinion. The Government has introduced legislation to delete these balances. It also intends to introduce legislation to allow it to record all accounts payable for annually lapsing appropriations at March 31, 1980. Consistent with other recommendations of the Committee concerning reservations on the carrying value of assets, the Office of the Comptroller General has initiated studies on the valuation of loans, investments and advances with a view to developing and implementing appropriate changes and amended policies by March 31, 1980.

5.27 In its First Report, the Committee also recognized the importance of the audited statements and expressed support for the Auditor General's 1978 observations calling for improved disclosure. This year, the Government has deleted a number of explanatory notes to the audited statements because they summarize information available in other sections of Volume I of the Public Accounts. It has reorganized Volume I to bring together, in distinct sections, all information related to particular amounts shown in the summary statements. It is the Government's view that this reorganization will result in improved disclosure by presenting the reader with information at various levels of summarization, and with sufficient detail to enable him to fully understand the transactions as related to legislative authority. These are useful first steps, but much more needs to be done before the audit criteria identified above are satisfied.

5.28 In considering financial reporting for the Government of Canada, there is a need to address certain basic issues, such as the purposes of the financial statements and the uses of the information reported. The Lambert Commission expressed concern about the quality and usefulness of financial statements submitted to Parliament. The Commission concluded that strong, central direction was required to resolve these difficulties, and recommended that this direction be provided by the Comptroller General of Canada. Under the Financial Administration Act, the Treasury Board, the Minister of Finance and the Receiver General for Canada all have responsibilities for developing accounting policies and preparing the Government's financial statements.

5.29 We agree with the Lambert Commission on the need for strong central direction. This direction should be provided by the Comptroller General of

Canada. The Treasury Board should be given sole responsibility for the Government's accounting and financial reporting policies. Appropriate amendments to the Financial Administration Act will be required to vest this responsibility and authority in the Treasury Board and the Comptroller General.

Authority

5.30 The traditional and primary objective of the audit of authority is to ensure that expenditures have been made only as authorized and money has been expended only for the purposes for which it was appropriated by Parliament. Authority is an integral part of all the other components of the comprehensive audit because basic parliamentary requirements must be reflected in systems of financial and management control.

5.31 Parliament authorizes the expenditure of public money by appropriation acts and other statutes. Parliament regulates the administration and control of public funds and property through the Financial Administration Act and other legislation.

5.32 Since it is accountable to Parliament for the execution of this authority, the Government has established a variety of rules, regulations and procedures for the authorization, administration and control of the expenditures and assets of Canada. Examples include: regulations promulgated by the Governor in Council and by the Treasury Board; Orders in Council; Treasury Board minutes, circulars, directives and guidelines; and departmental policy instruments. As part of our comprehensive audits, we test transactions and examine controls to ensure compliance with legislation and rules and regulations, and their intent.

5.33 Many of the rules and procedures apply to all departments. We have conducted a number of government-wide audits and inquiries which examined compliance with authority. Examples include our audits of the Receipt and Deposit of Public Money, and Office Accommodation, reported in our 1976 Report; Travel and Relocation Expenses, and Grants and Contributions, reported in our 1976 and 1977 Reports; Contracting Procedures, reported in our 1978 Report; and the Management of Telecommunications study conducted this year. Individual cases of non-compliance with specific requirements have been included in Other Audit Observations sections of our annual Reports.

5.34 Our audits revealed some common underlying problems related to compliance with authority.

5.35 **Communication of authorities.** In a number of instances, we found that departments were not complying with the authorities because departmental personnel were unaware of their existence or content. For example, in our 1976 review of the Receipt and Deposit of Public Money, we observed that individuals

responsible for handling cash often seemed to lack knowledge of and regard for relevant regulations.

5.36 Our 1978 study of Contracting Procedures showed that some departments were not providing staff with adequately documented procedures for processing payments on contracts. As a result, several officers who had been delegated spending and payment authority under the Financial Administration Act were not exercising their financial responsibilities in accordance with appropriate procedures for verifying contractors' accounts before payment. These procedures are required by the Act and by the Account Verification and Payment Requisition Regulations.

5.37 Instruction and training. Since 1975, a number of the studies found that, although departments knew that authorities existed, staff had not been given sufficient guidance and training in applying and enforcing regulations. For example, our 1976 review of compliance with the Treasury Board's Office Accommodation Guidelines revealed that responsibility for accommodation was sometimes assigned as a part-time function to staff performing other duties, and that they did not have adequate instruction or guidance in this area. We also noted that there was no co-ordinated training program to ensure that staff were applying the systems and methods uniformly.

5.38 Monitoring and reporting. We also observed a lack of procedures to monitor and report on non-compliance with regulations and other authorities. For example, our examination of Office Accommodation showed that accommodation was provided to departments on the basis of their projected requirements. Unless additional accommodation was requested, central agencies did not verify the accuracy of the projections. Once a department or agency occupied the space, it assumed control over its use and management. Vacant or under-used areas were incorrectly identified in central inventory records as being occupied because of a lack of monitoring and reporting.

5.39 Our review of travel and relocation expenses indicated that many advances exceeded anticipated expenses, and that the amounts not accounted for by the due dates were significant. Procedures for monitoring and reporting non-compliance with Treasury Board directives were inadequate in some departments.

5.40 Internal audit. In most of the studies, we also observed that departmental internal auditors had not adequately audited compliance with authorities. Many problems noted in the course of our studies could have been identified and corrected if an appropriate internal audit had been carried out.

5.41 **Audit criteria.** *Compliance with authorities requires that:*

- *authorities be identified and policies and procedures for compliance be established, documented and communicated;*
- *responsibility for carrying out these policies and procedures be assigned to qualified personnel;*
- *procedures and controls be established to monitor, detect and report instances of non-compliance; and*
- *compliance with authorities be subject to regular internal audit.*

5.42 **Government action.** The Government has responded to our past Reports by issuing new directives and guidelines, by changing policy manuals and by strengthening monitoring and control procedures. This year the Administrative Policy Branch of the Treasury Board Secretariat has a new Administrative Policy Manual to replace part of the existing Authorities Manual.

5.43 Departments and agencies also appear to be reacting positively to our recommendations by improving procedures and the quality of internal audit. The task now is to ensure that departments enforce the authorities and related policies and procedures. Future audits by this Office will monitor and report the remedial actions taken.

MANAGEMENT CONTROLS

MANAGEMENT CONTROLS

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MANAGEMENT CONTROLS

Introduction

6.1 Chapter 2 described the management controls component of comprehensive auditing as:

"an evaluation of the system of management information and controls, including the internal audit/evaluation/review functions, so as to ensure there is due regard to economy and efficiency and that appropriate procedures to evaluate and report on program effectiveness, where such are feasible, are in place and operating satisfactorily -- in short, value-for-money auditing."

6.2 Value-for-money auditing, the centrepiece of this Office's new mandate as set out in the 1977 Auditor General Act, is a response to wide-spread public opinion that governments should spend public money with the same care that individuals exercise in spending their own. The Government should spend not only within the limits set by Parliament, and for the purposes approved by Parliament, but also economically, efficiently and effectively. This can be achieved only through sound management planning and control systems in place across Government.

6.3 In successful organizations, planning systems define objectives and the means for their attainment, including the marshalling and use of the necessary resources. Management control systems help ensure that resources are obtained and used economically, efficiently and effectively in the pursuit of an organization's objectives. The management controls component of comprehensive auditing embraces both planning and control systems needed by government managers. Financial controls, as described in Chapter 3, are closely inter-related with management controls. In reality, they form part of management controls.

6.4 Under the Auditor General Act, the question this Office asks about management control in Government is specific: are public funds and resources being managed with due regard to economy and efficiency, and are there satisfactory systems in place to measure and report the effectiveness of programs where it would be reasonable to expect them? Comprehensive auditing of management controls does not question the Government's policy decisions or their results: it assesses whether public service managers are striving to achieve value for money through the use of sensible control systems.

6.5 Our review of management controls also includes assessing internal auditing and program evaluation functions, since these constitute management's own means of knowing whether its control systems are effective.

Value-for-Money Auditing: 1978 Findings

6.6 As described in our 1978 Report, the Study of Procedures in Cost Effectiveness (SPICE) was the initial phase of the value-for-money mandate under the new Act. It started as a methodological study in anticipation of the new Act but became a government-wide study with the proclamation of the Act in 1977.

6.7 Three aspects of management controls were investigated in sufficient depth to warrant government-wide conclusions and recommendations in 1978: the planning of capital acquisition projects, the measuring of efficiency, and the evaluation of program effectiveness.

6.8 The overall conclusion from 35 SPICE studies in 23 departments stated:

"There is ... widespread lack of due regard for economy and efficiency in the operations of the Government, and inadequate attention to determining whether programs costing many millions of dollars are accomplishing what Parliament intended."

6.9 **Planning capital acquisition projects.** On the basis of 13 audits of acquisition projects such as airport terminals, office buildings and heavy equipment, worth about \$700 million, the conclusion was that "the capital acquisition process does not come up to a reasonable standard of due regard for economy." The natural tendency of program advocates to press their initiatives was not balanced by appropriate controls exercised through the resource allocation process. Capital projects typically took longer and cost more than originally envisaged in documented proposals. As a rule, alternatives were not objectively considered and the project goals were not stated in a manner that would permit reasonable assessment of their desirability or the ultimate likelihood of the project achieving them.

6.10 **Measuring and increasing efficiency.** Only two of 16 performance (efficiency) measurement systems covering 100,000 person-years in 12 departments were considered satisfactory. The others did not play an important part in program management or satisfy the needs of operating managers who have to make the day-to-day decisions required to control productivity. Management did not appear to know the actual level of efficiency or how productivity might be increased.

6.11 Evaluating effectiveness. The SPICE review of effectiveness measurement in 23 programs in 18 departments disclosed few successful attempts to evaluate program effectiveness, even though managers should have effectiveness information for both control and accountability reporting. There is a natural temptation for managers to avoid serious evaluation of their programs because it may reveal facts unfavourable to the program concerned and because managers may hold suspect the quality of the evaluation. Initial attempts by departments to evaluate their own effectiveness are acts of courage that should be applauded. Although such evaluations may contain methodological deficiencies, such weaknesses are less important in the long run than the lack of any attempt to measure program effectiveness.

Control Systems Supporting Economy, Efficiency and Effectiveness

6.12 Prerequisites for good management control systems. Management control can be exercised effectively only if:

- objectives of the organization, program or activity have been defined as clearly as possible and quantified, where feasible;
- proper planning has been carried out for the achievement of these objectives, including establishing priorities and setting standards for judging performance;
- appropriate organizational arrangements have been made, including clear and fair allocation of responsibilities and resources; and
- adequate processes have been established to monitor performance.

6.13 Comprehensive auditing assesses whether these prerequisites exist, including the quality and use of the information produced for management control purposes -- its validity, reliability, completeness, relevance, and timeliness --and whether it is transmitted to the most appropriate person or group.

6.14 The need for proper management controls and assessment criteria was underscored by the Lambert Commission in its recommendations directed toward "a mutually compatible management system appropriate to the requirements of government" when it stated:

"Proper financial administration is a vital component of both management and accountability ...financial considerations should be at the core of every phase of departmental activity... It is, however, equally important to the process of accountability, providing senior departmental officers, the Government, and Parliament with a yardstick by which to judge results achieved in relation to the amount of financial and human resources devoted to the undertaking of any task...

"The final element required to complete the establishment of a 'mutually compatible management system' is the introduction of processes for exacting an accounting for performance, and applying the consequence of its outcome to individual processes that should extend throughout the ranks of every department, from those departments to the Government, and from the Government to Parliament and the Canadian people."

6.15 Audit criteria are developed to reflect as closely as possible the value-for-money expectations of Parliament. Based on its assessment of the audited organization, the Office reports to Parliament the degree of management's regard for economy and efficiency, and the adequacy, in the circumstances, of procedures to measure and report program effectiveness.

6.16 **Definitions of economy, efficiency and effectiveness.** As goals of management control in the public sector and as key words in Section 7(2) of the Auditor General Act, economy, efficiency and effectiveness were described in Chapter 2 of the 1978 Report as follows:

Economy. "Economy refers to the terms and conditions under which the Government acquires human and material resources. An economical operation acquires these resources in appropriate quality and quantity at the lowest cost. If control mechanisms are not in place, programs may be overstaffed or understaffed, or inappropriately equipped in other ways to deliver the expected results."

Efficiency. "Efficiency refers to the relationship between goods or services produced and resources used to produce them. An efficient operation produces the maximum output for any given set of resource inputs; or, it has minimum inputs for any given quantity and quality of service provided. Efficiency is obviously more measurable and more controllable in some situations than in others. The underlying management objective is increased productivity."

Effectiveness. "Effectiveness concerns the extent to which a program achieves its goals or other intended effects. For example: to increase income in a particular area, a program might be devised to create jobs. The jobs created would be program output. This contributes to the desired program effect of increased income which can be measured to assess program effectiveness. Of course, not all programs are equally evaluable. Also, management procedures for measuring and reporting effectiveness will differ between programs." (Appropriate techniques may not be available, or their high cost might make a thorough evaluation unreasonable.)

6.17 The audit approach. A systems approach to the auditing of management controls addresses the degree to which such controls support the achievement of economy, efficiency and effectiveness. But it is Parliament and the public who determine objectives and priorities. In the effectiveness area, the Office begins by understanding program objectives, intended effects and the feasibility and cost-effectiveness of evaluation, given the state of the art. Against the criterion of what would be reasonable and appropriate in the circumstances, we examine the adequacy of procedures to measure and report the effectiveness of the programs under review and also whether or not the reports cover both intended and unintended effects. If satisfactory procedures are not in place, where these procedures could appropriately and reasonably be implemented, we report this to the department for remedial action and, if significant, to Parliament. It is not our responsibility to question the appropriateness of program objectives; this is the responsibility of Parliament.

6.18 However, the Audit Office will go beyond the auditing of management control systems to report significant cases -- as the Act specifically provides -- where economy and efficiency are at issue.

6.19 A number of audit criteria have been developed to date by this Office. Although they form a starting point for assessing the quality of management control systems, they do not cover all the major dimensions of public resource management. For example, we need additional criteria for planning beyond the capital projects criteria detailed in the 1978 Report. Since planning has a great influence on resource acquisition in all areas of Government, additional criteria are being developed for the auditing of management control systems governing the hiring of people and the procurement of the equipment and materiel with which they work. Detailed audit criteria will be needed in the effectiveness area, particularly in judging the feasibility of evaluation and in examining the appropriateness of various evaluation methods. Guidelines from the Treasury Board, through the Office of the Comptroller General, are important and necessary.

6.20 As explained in our 1978 Report, the Audit Office has developed audit criteria in three primary areas of resource management control: planning capital acquisition projects, measuring efficiency, and evaluating effectiveness. Audit criteria were also established in 1978 for the internal audit function. The following section summarizes these criteria. Chapter 9 of this Report sets out the audit criteria for payroll costs management. They are included briefly in this Chapter so that all management controls audit criteria that have been used to date and are of government-wide applicability will be located in a single section of this Report.

Payroll Costs Management

6.21 Our audit of payroll costs management, which was announced in the 1978 annual Report, examined three areas of management control over the

acquisition and use of human resources: manpower planning, training and development, and human resource information systems.

6.22 Manpower planning. Manpower planning systems are designed to ensure that the appropriate numbers of people are available with the required skills, when and where they are needed.

6.23 Proper management control means that manpower requirements should be determined from operational objectives and work plans specific enough to enable management to determine the number of staff required to meet them. Manpower requirements for the planning period should be determined by assessing the number, type, level and location of human resources needed to carry out work plans and meet operational objectives. This assessment should, where feasible, be based on reasonable work standards.

6.24 The future availability of current manpower should be forecast. This calls for an up-to-date, accurate inventory of human resources, their skills and experience and other relevant characteristics. The inventory should cover all occupational groups and levels that are significant for manpower planning purposes. Turnover statistics, promotion potential and retirement profiles should be analysed to provide forecasts of available manpower. Departments need a performance appraisal process that facilitates assessment of performance, training and development needs, and future promotions.

6.25 Action plans should be developed to meet manpower requirements. Available manpower and skills should be compared with needed manpower and skills to identify shortages and surpluses. These should be resolved through recruiting, training, developing, transferring, promoting and separating employees, and through succession planning.

6.26 Manpower planning should be integrated with other management functions, with other personnel management planning, and with operational and financial planning.

6.27 The implementation of action plans should be the responsibility of designated personnel and should be monitored. Responsibility for executing action plans within agreed time schedules should be assigned and communicated clearly. Implementation should be monitored regularly to ensure adherence to time schedules and to identify the need for changes to the plan.

6.28 Audit criteria. *To achieve good manpower planning, managers should:*

- *determine manpower requirements from operational objectives and work plans;*

- *forecast future availability of current manpower;*
- *develop action plans to meet manpower requirements;*
- *integrate manpower planning with other management functions; and*
- *ensure that implementation of action plans is the responsibility of designated personnel and is monitored.*

6.29 Training and development. Training and development control systems help identify and meet future skill, knowledge and attitudinal requirements to improve job performance and to cope with technological and other changes.

6.30 Responsibilities for training and development should be clearly defined and communicated. Specified personnel should be designated to: formulate and communicate training policies, standards and criteria; develop training plans, methods and practices; ensure that alternatives are considered; and evaluate results. Line managers should identify individual training needs, participate in developing criteria for evaluating training, assist in assessing training alternatives for their staffs, and review and approve training plans.

6.31 Training and development activities should be planned and their implementation controlled. The costs and benefits of meeting each training need should be determined. Training priorities should be established and resources allocated accordingly. Alternative training methods should be identified and evaluated. All of this should be done under the direction of persons with specialized knowledge -- functional specialists in the subject area -- who should participate in designing the content of training courses. Courses should be conducted and evaluated on a pilot basis before organization-wide implementation. Separate training and development budgets should be prepared. All training and development costs should be identified, recorded and controlled against budgets. Training facilities should be appropriate to course objectives, well-utilized and economically justified. Instructor and course designer workload and performance standards should be set and monitored.

6.32 Training and development activities should be evaluated. Training undertaken should be evaluated in terms of costs versus benefits from improved job performance. Evaluation should be based on predetermined learning goals and behavioural change objectives.

6.33 Audit criteria. *To achieve value for money in training and development, managers should:*

- *clearly define and communicate responsibilities for training and development;*

- *identify training and development needs;*
- *plan training and development activities and control their implementation; and*
- *evaluate training and development activities.*

6.34 Human resource information systems. These systems provide managers with basic personnel information about employees and positions in the organization. Such systems should be integrated with and used to support planning and resource allocation processes. They should be designed and operated to serve the information needs of line managers; users should participate fully in the design of these systems.

6.35 Information produced should be timely, up to date, complete, accurate, and relevant to the users' human resource decision-making authority. Standards for the accuracy, completeness and timeliness of information should be established with users. Users should be able to rely on these systems to produce the information they need.

6.36 Information processes should recognize the confidential nature of the data involved. Instructions and procedures should be documented and communicated to operators and users.

6.37 Systems should be designed and operated in an economical and efficient manner, with specific individuals responsible for co-ordinating and assessing information requests and solving problems encountered in system operations.

6.38 Production of essentially the same information by different systems should be avoided. The development of systems should include the consideration of alternatives, full costing of alternatives, proper budgeting and adequate project control. Operating costs should be properly budgeted and controlled.

6.39 Human resource information systems should comply with central agency regulations, guidelines and directives.

6.40 Audit criteria. *To properly support management planning and control processes, human resource information systems should:*

- *meet the needs of the users;*
- *be designed and operated in an economical and efficient manner; and*

- *comply with central agency regulations, guidelines and directives.*

6.41 We now turn to the criteria used in our 1978 reviews of economy and efficiency issues and of procedures to measure and report effectiveness.

Planning Capital Acquisition Projects

6.42 Since the Government annually has about \$10 billion committed or planned for capital projects in varying stages of completion, the management standards it uses for planning and controlling these projects are of significant interest to parliamentarians. Management of such major projects calls for attention to a number of aspects of control systems.

6.43 Responsibility and accountability. Public sector capital acquisitions often involve several departments -- those concerned with peripheral effects as well as the lead department interested in the end results. Furthermore, the procurement of project assets may lie with service departments such as the Departments of Supply and Services or Public Works. The need is for clearly defined and communicated allocation of responsibility and accountability for analysing needs, setting objectives, conducting feasibility studies, developing proposals, exercising control over design and construction, and reviewing completed projects.

6.44 Accurate and complete documentation. The history of many public construction projects has begun with inadequate and overly subjective documented justifications. The Treasury Board is asked to grant funds without enough facts for informed decision-making; advocacy prevails over analysis. Each capital acquisition should begin with an objective analysis of the need to be met and its relationship to statutory and departmental objectives. Care should be taken to avoid exaggerating benefits and thereby overstating the need for the project.

6.45 For each capital acquisition there should be a clear, written statement of objectives, which should be related to the appraisal of needs. Where feasible, the objectives should facilitate quantitative measurement of the extent to which they are attained.

6.46 Alternative courses of action should be evaluated impartially on the basis of differences in revenues, benefits and life-cycle costs (initial capital costs and the present value of operating and maintenance costs over the life of the asset). Options that should be thoroughly analysed include contracting-out of activities to companies capable of doing the required work; leasing, as opposed to outright purchase; repairing or modifying existing facilities rather than replacing them; or delaying the project, perhaps indefinitely.

6.47 Capital cost estimates at all stages of the planning process should be realistic and complete, covering all aspects of the project. A revised estimate, based on the actual design, schedule and site conditions should be prepared before seeking final approval. The effects of possible future inflation should be considered separately from other cost-increase factors. Estimates should be expressed in both current and anticipated future dollar values.

6.48 Information for approval. Too many costly public projects receive approval in principle at a stage in their evolution where no one knows what they will eventually cost, or whether the costs are commensurate with the anticipated benefits. Our position is that approval for expenditures on construction should be withheld in the early stages of project planning when full information is not yet available. When a project is first conceived, approval should be given only for funds to conduct feasibility studies, develop designs and prepare cost estimates. As indicated above, one reason for withholding final approval is that an accurate estimate of construction costs cannot be made until site conditions have been assessed and a design has been selected. Accurate estimates are basic to analyses such as cost-benefit studies and cash flow forecasts. Final approval of a project should also await an up-to-date analysis of needs and alternatives, rental commitments from major users in the case of a "user-pay" facility, and detailed plans for achieving manpower reductions in the case of a mechanization project.

6.49 Controlled implementation. Managers should exercise control over projects during design and construction to ensure that facilities of the approved size and quality are completed on schedule and within the authorized budget. Adequate systems should be used to control changes in design and to report progress, highlighting accountability for decisions taken and results achieved.

6.50 Final review. On completion, each project should be reviewed to ascertain whether appropriate planning and control procedures were applied, economy and efficiency were observed, and objectives were achieved. This exercise is also essential to evaluate the performance of managers and to develop recommendations for planning and controlling similar projects in the future.

6.51 Audit criteria. To control the planning and acquisition of major capital projects, management should:

- *clearly define and communicate responsibility and accountability;*
- *support requests for funds with accurate and complete documentation;*
- *base final approval on full information;*
- *properly control project implementation; and*
- *review completed projects.*

Measuring and Increasing Efficiency

6.52 Systems purporting to measure efficiency in the Public Service are absent, or for the most part, not used by managers to increase efficiency. Public service managers should monitor their operations and actively seek means of increasing efficiency. This requires, as a minimum, the measurement and reporting of actual operational performance and, more important, identifying and capitalizing on opportunities for increased productivity. But it also requires attention to the major determinants of performance, such as the ability of the work force, work methods and structure, environmental constraints, and motivation.

6.53 **Relevance and accuracy of the measures of performance.** The output must be relevant, comprehensible, and practical to measure, if productivity is to be monitored and improved.

6.54 To begin with, output should be well defined and correctly measured. The definitions and measures should be modified to reflect any changes in the nature of the output. Proxy measures should be used only if appropriate. The characteristics of the output, such as quality and level of service, should be specified clearly. Where feasible, the performance reports should include indicators of these characteristics.

6.55 Input should be related to the output it produces. Rules for allocating input should be appropriate. Adjustments for significant changes in inventories of work in process should be included in the calculations. Both output and input data should be checked for accuracy and reliability.

6.56 **Standards.** Performance measurement systems and information, to be valid and acceptable for management decisions on productivity improvement, require an adequate base for comparison of observed performance. When it is appropriate to do so, standards should be established by generally acceptable work measurement techniques.

6.57 Such standards or bases should be established on a consistent basis from one location to another for decentralized operations. But they should take local circumstances into account so that meaningful inter-regional comparisons of performance can be made.

6.58 Actual performance levels should be reasonable in comparison with the related standard or base. When standards have been established by work measurement, the target for an individual should be 100 per cent of standard. Over a period of time, a minimum acceptable group performance should be 80 per cent.

6.59 Usefulness of reports. Performance indicators are of little value if they are unreliable or unrelated to the practical needs of managers. For example, unweighted aggregation of data on significantly dissimilar measures of output should be avoided. Reports should be timely in relation to management needs. They should be summarized and should highlight significant detail.

6.60 Productivity improvement. The primary purpose of performance measurement is to provide information for productivity improvement or for maintenance of prevailing performance levels in the face of changing conditions.

6.61 Targets should be set either in terms of absolute performance or as gains over some previous period. Performance data should indicate whether the targets are being met and where corrective action is needed. Where historical comparisons form the basis for reporting efficiency levels, additional analysis should be done to indicate the extent to which productivity improvement opportunities exist.

6.62 Increased efficiency should be sought systematically. Recognized techniques, such as work measurement and organization and methods analysis, should be used for this purpose. Where appropriate, mechanization should be considered. All proposed changes should be evaluated before implementation, including consideration of data on past performance.

6.63 Performance data should be used to encourage employee groups and managers to improve productivity. The communication to individuals and groups of the performance expected of them is of primary importance.

6.64 Productivity data should be used in estimating future resource needs. In the budgeting process, performance data should be used to plan improved ways of delivering programs.

6.65 Up-dating systems. Performance measurement systems have a short life if unadjusted for change. Data collection and analysis routines should be modified to correct identified defects. Computerization or mechanization projects affecting the labour content of an operation should be recognized, and labour productivity indicators revised accordingly. Similarly, performance measurement systems should be modified as necessary to reflect program changes arising from new legislation.

6.66 Audit criteria. *To help control the efficiency of work done, performance measurement systems should:*

- *use relevant and accurate measures of performance;*

- *compare performance to a standard;*
- *tailor reports to management needs;*
- *use performance data to achieve productivity improvement; and*
- *keep productivity measures and reports current.*

Evaluating Effectiveness

6.67 Program effectiveness, the achievement of program objectives and other intended effects, is the ultimate issue in value for money. From our research on the state of the art in effectiveness evaluation in Canada and other countries, we developed basic principles that we used in formulating the audit criteria set out in the 1978 Report.

6.68 There is a perception that program evaluation is difficult, expensive and time-consuming. Many managers believe that the effectiveness of their programs cannot be measured. Although there are limitations in what can be measured, practical means are available for at least partial measurement of the achievements of most major programs against stated objectives.

6.69 As a general rule, one does not have to approach the limits of the state of the art to plan and carry out useful evaluations. The problem is not so much a lack of technology but failure to apply recognized principles and well tested techniques where appropriate and reasonable.

6.70 Measurements of effectiveness that are seriously flawed methodologically are at least useless and perhaps misleading. Decision-makers must have full confidence in the credibility of any analysis before they will give it serious consideration.

6.71 Although there will always be elements of subjective judgment in program evaluation, we believe that maximum use should be made of recognized evaluation methodology to measure the impact of government programs. Useful evaluation, however, is dependent on a number of important considerations.

6.72 **Clearly specified program objectives.** Value for money implies an ability to ascertain program accomplishments. Within practical limits, program objectives should be specified as clearly as possible to help evaluate effectiveness. Objectives must be specified so that Members of Parliament can seek the answer to this important question: how do I know whether the program is worth its cost?

6.73 Measurable program objectives. The foundation of every decision to carry out effectiveness evaluation should be a series of steps that clarify probable causal relationships linking a program's activities to its objectives and anticipated effects. The purpose is to determine which objectives and effects can be considered for measurement in an effectiveness evaluation.

6.74 The first step is to describe the program. Information is gathered and a model is developed which defines the program's activities, objectives and effects as well as the underlying assumptions about how the objectives are to be achieved by program activities. The model is then critically examined to identify the outcomes that can be both realistically measured and achieved. Taken together, the objectives and effects that are measurable and their cause-and-effect relationship to program activities constitute the framework for analysis. Management can then initiate evaluations to determine the extent to which the program is effective.

6.75 The state of the art and cost-justification. Departments and agencies should use the best available techniques in measuring and reporting the effectiveness of their programs. The state of the art is global, not solely Canadian. Departments should be well informed about evaluation activities in other jurisdictions and should take advantage of that information in planning their own evaluations.

6.76 Like any other activity, effectiveness evaluation itself must be cost-justified. Is the information to be obtained worth the time, effort and money to be expended? The achievements of programs should be measured in every case where measurement is possible, practical and cost-justified.

6.77 Reporting evaluation results. Since evaluation studies are of little value unless their results can be weighed by decision makers, reports on program effectiveness should be provided to management, the Government and Parliament in a manner and frequency consistent with the recipient's decision-making responsibilities. Such reports should include any significant qualifications about the limitations and reliability of the information.

6.78 Use of evaluations. Departments should develop a comprehensive plan that ensures the timely assessment of the accomplishments of major programs. Evaluations should lead to improved understanding of the program and its impact. Such insights may lead to decisions to modify aspects of the program or to add new elements to the process of program delivery. They are an essential input to decisions on the future of programs.

6.79 Audit criteria. *To measure and report the effectiveness of programs, procedures should be in place which:*

- *specify program objectives and effects as precisely as possible;*

- *identify program objectives and effects that can be measured;*
- *reflect the state of the art and are cost-justified;*
- *report the results of effectiveness measurement; and*
- *employ evaluations to increase program effectiveness.*

Government Action

6.80 In a number of areas, the Government has taken or is planning to take corrective action.

6.81 Planning capital acquisition projects. In June 1978, the Treasury Board issued its Policy and Guidelines on the Management of Major Crown Projects. It applies to projects which, at the concept stage, are estimated to cost more than \$100 million and to projects expected to have a major socio-economic impact. Implementation of the policy is under way. The Treasury Board Secretariat has held a series of meetings with the departments involved, as well as technical sessions to discuss the policy and its implications. In 1979, the Treasury Board issued a number of follow-up directives which collectively establish a firm foundation for good project management practices. They included directives on obtaining and remunerating qualified project managers for major Crown projects and on improved cost control on all projects, as well as guidelines on the management of projects of any size. The directives and guidelines require personal responsibility and accountability for performance and cost control to be clearly defined. Furthermore, in the directive on cost control, departmental responsibility for providing reliable estimates and for keeping projects within these estimates is specified in such a way that if a project overruns its budgeted cost, and this "is considered by the Ministers to be the result of inadequate management, a penalty may be levied against the responsible department in an amount up to twice the total over-run."

6.82 Measuring and increasing efficiency. In 1976, the Treasury Board Secretariat issued a directive stating that all departments and agencies measure their performance on a regular basis and use such measurements by 1980 for internal management and resource allocation purposes. To support this policy, managers and specialists are being trained in performance measurement.

6.83 Evaluating effectiveness. Treasury Board Guidelines on Program Evaluation are being prepared to support implementation of its policy on measuring and reporting the efficiency and effectiveness of government programs. The October 11, 1978 Speech from the Throne set out the intention of the Government at that time to provide for the review by Parliament of evaluations made by the Government on major programs. The Comptroller General advised us that the Program Evaluation Policy Division will be given Branch status and will be headed by a Deputy Comptroller General. Additional staff are to be assigned to this branch to enable it to pursue two specific tasks. First, a group will be established

to provide liaison with departments. These officers will be responsible for ensuring that departments follow the best professional practices in the area of program evaluation. A second group will be responsible for the development and interpretation of program evaluation policy.

6.84 Improvement in Management Practices and Controls (IMPAC). In 1978, the Office of the Comptroller General instituted a survey of management practices, beginning with 20 major departments and agencies and scheduled to cover 11 more during 1980. Planning, budgeting, controlling, evaluating and auditing are the main functions reviewed in IMPAC. Its aim is to achieve better management through action plans drawn up by the departments themselves. All 20 surveys in the first round have been completed, and action plans have been developed by 10 of the organizations surveyed.

6.85 Relating to the evaluation component of the survey, an Evaluability Assessment Task Force is drawing on IMPAC information to help departments and agencies devise plans for program evaluation that take into account the extent to which programs are amenable to evaluation by appropriate and reasonable methods. In a further move to support departmental efforts in evaluation, the Office of the Comptroller General is constructing a skills development program for evaluators. The first workshop took place in October 1979. It will be followed by others, and the entire program will be further supported by a new resource centre of reference material.

Comprehensive Internal Auditing

6.86 For the last five years, this Office has been concerned about the amount and quality of internal auditing in the various departments of Government. In our 1975 and 1978 Reports, we stressed the Government's shortcomings in this important area.

6.87 Chapter 12 of our 1978 Report pointed out that:

"With a few notable exceptions, senior management has failed to appreciate the potential benefits of internal auditing and has paid little attention to the quality of existing auditing in their departments. There has been a corresponding lack of support for and direction to the audit activity. As a result departments have been confused about what auditing is, what auditors do and how the function should be organized to achieve the greatest possible benefits."

"Without the benefit of integrated, comprehensive internal auditing, senior government managers can have no real assurance that they are obtaining value for money and are managing resources effectively. Three actions are needed:

- integration of the wide variety of audit, review, inspection, monitoring and evaluation activities now taking place within departments;
- adherence to generally accepted standards or norms for effective audits; and
- management support and leadership both centrally and within departments."

6.88 Our 1978 Report suggested, as part of the three actions noted above, that departmental internal audit groups should also carry out program evaluation. We welcome the clarification of this issue by the Comptroller General, in defining the audit and evaluation functions separately. The Comptroller General's August 1979 statement entitled *Internal Audit and Program Evaluation in the Government of Canada - A Clarification of Roles, Responsibilities and Relationships*, defines internal audit and program evaluation as follows:

"Internal Audit is the systematic, independent review and appraisal of all departmental operations, including administrative activities, for purposes of advising management as to the efficiency, economy and effectiveness of the internal management practices and controls. It is a control, but it functions independently within the department by measuring and assessing the effectiveness of all other controls. The independent review and appraisal of the operations by internal auditors does not in any way relieve management of its responsibilities for planning and control."

"Program Evaluation is the periodic, independent and objective review and assessment of a program to determine, in light of present circumstances, the adequacy of its objectives, its design and its results both intended and unintended. Evaluations will call into question the very existence of the program. Matters such as the rationale for the program, its impact on the public, and its cost effectiveness as compared with alternative means of program delivery are reviewed. In this context, a 'program' is a major activity or group of activities designed to achieve specific long-term objectives of an organization."

6.89 A number of different aspects of internal auditing require attention if its impact is to be as large and remedial as it should be. This is particularly true if government auditing is to move toward the "single audit" concept where the Audit Office depends on internal audit reports to complement and thereby reduce its own external investigations on behalf of Parliament.

6.90 **Scope of responsibilities.** Internal audit should provide senior management with a continuing independent appraisal of all aspects of a department's

activities. This includes the integrity of financial and other information; examination of controls over public property, revenues and expenditures; compliance with objectives, policies, plans, procedures, laws and regulations; and, in general, a concern with the economy, efficiency and effectiveness of management. In short, the scope of internal audits should be comprehensive.

6.91 Audit planning. Audit planning should ensure that all activities of the department are identified, that potential audit areas are ranked in order of priority, and that appropriate audit objectives are determined for each area selected for audit. Several things need to be done to achieve this planning objective.

6.92 A model of the department should be prepared, identifying as potential audit areas all organizational components, programs and activities, and revenue from outside sources when applicable. The audits should be planned to avoid gaps or duplication in audit coverage. This model should ordinarily extend over several years and be updated at least annually.

6.93 All potential audits should be assessed according to defined criteria based on materiality, importance to management and degree of risk or opportunity. The objectives in each area subject to audit should be established and an annual work plan prepared.

6.94 Organizational status and mandate. The internal audit group should have an organizational status that will permit it to report objectively and effectively on any operation or activity of the department. Its responsibilities should be clearly communicated in a mandate from the deputy head that visibly demonstrates his support. For internal audit to be fully effective, the head of the internal audit group should report directly to the deputy head and be organizationally independent of all operations audited. All audit activities carried out by or on behalf of the department should be integrated, over time, into a single audit group.

6.95 Internal audit should have demonstrable continuing support from the deputy head and the audit mandate should be given wide distribution. Departmental managers should always be required to respond to internal audit findings on a timely basis.

6.96 Our position generally conforms to that expressed in the Comptroller General's Standards for Internal Financial Audit issued and approved by Treasury Board in 1978, except for the following standard:

"The head of the internal audit group shall report to the deputy head or to another senior executive officer who reports directly to the deputy head."

This is obviously still an unresolved issue that directly affects the organizational independence of the internal auditor. We continue to believe that the chief internal auditor should, without exception, report directly to the deputy head.

6.97 Professional resources. The internal audit group should be professionally competent and have enough resources to carry out its responsibilities. This requires strong leadership by a thoroughly competent professional, and a staff of auditors technically proficient in the variety of disciplines necessary for carrying out comprehensive audits. It also suggests that internal auditors need to maintain their technical competence through continuing education.

6.98 The staffing problem has recently been acknowledged by the Comptroller General. We support his efforts to upgrade the capabilities of personnel involved in internal auditing. We also agree with his concern, as expressed before the Public Accounts Committee, that the process should move only as fast as there are fully competent, highly professional people, and attitudes in departments and agencies to ensure its success. At present, few departments have audit groups capable of assessing the quality of management control systems.

6.99 Performance of audit work. Appropriate standards of performance must be defined and followed in each audit assignment. We found in 1978 that many departments lacked any means of knowing whether audits were properly carried out. Better audit work can be expected only if satisfactory standards are followed. The Comptroller General has laid down standards for financial auditing and these are being reflected in departmental audit manuals. Standards should now be developed to cover all aspects of a comprehensive internal audit. We have been advised by the Comptroller General that he is currently broadening the scope of existing standards, consistent with the role of internal audit as described in paragraph 6.88. To do this, he has established a group within the Office of the Comptroller General that, in addition to developing new standards, will carry out quality assurance reviews of internal audit work. It will also advise on the appointment of heads of internal audit groups and design audit training courses.

6.100 Reporting audit findings. The results of the audit should be documented in a formal report to provide a constructive vehicle for change, discussed with the managers affected and presented on a timely basis to the deputy head and his audit committee. Such reports should be as clear and objective as possible, and limitations on the scope of the audit should be disclosed. Our 1978 findings and those of the Lambert Commission suggest that reports are not now receiving the follow-up attention they need.

6.101 Use of audit committees. Audit groups should have the leadership and support of an audit committee composed of senior management and suitably qualified persons from outside the department to provide additional objectivity. Preferably, the deputy head or a person of equivalent status from inside or outside

the Public Service should chair the audit committee. Our views on the appointment of suitably qualified persons from outside the department were supported and extended by the Lambert Commission:

"While many government departments and agencies already have audit committees, their members do not have the qualities of objectivity and external experience; most audit committees are simply sub-committees of the departmental management committee. Even senior executives from other departments or agencies could not provide these qualities, since management styles across government tend to be similar. Moreover, some government-wide problems are too readily accepted as insoluble, and the sense of community among senior public servants could inhibit frank criticism. These considerations did not receive sufficiently careful examination by the Treasury Board in its recent publication 'Standards for Internal Financial Audit'.

"To meet these objectives, and to respond to the need for objectivity and varied experience, departmental audit committees should include representatives of the senior ranks of the Canadian business community."

6.102 The audit committee should approve audit plans, consider matters raised by the Office of the Auditor General and the internal auditors, assess the adequacy of audit resources, and advise on internal audit staff appointments.

6.103 Departmental audit committees have been established in a number of departments, but they vary widely in responsibility and in the degree to which their terms of reference have been clearly defined. Properly constituted, such committees can play an important role in ensuring adequate recognition throughout the organization of the accountability of every manager for the economical, efficient and effective expenditure of public funds.

6.104 **Audit criteria.** *To be comprehensive and effective, the departmental internal auditing function should:*

- *provide senior management with a continuing, independent appraisal of all aspects of a department's activities;*
- *ensure through good audit planning that all activities of the department are identified, potential audit areas are ranked in order of priority, and appropriate audit objectives are determined for each area selected for audit;*
- *have an organizational status that will permit it to report objectively and effectively on any operation or activity of the department. Its responsibilities should be clearly communicated in a mandate from the deputy head that visibly demonstrates his support;*

- *have sufficient professionally competent staff and other resources to carry out its responsibilities;*
- *define appropriate standards of performance and apply them in each audit assignment;*
- *document the results of the audit in a formal report to provide a constructive vehicle for change, discuss it with the managers affected and present the report on a timely basis to the deputy head and the audit committee; and*
- *have the leadership and support of an audit committee composed of senior management and suitably qualified persons from outside the department to provide additional objectivity. Preferably, the deputy head or a person of equivalent stature from inside or outside the Public Service should chair the audit committee.*

Government Action

6.105 The President of the Treasury Board, in his letter of October 13, 1978, included in our 1978 Report, made it clear that the planning process for the 1979-80 fiscal year would include internal audit coverage of all important management functions as well as departmental adherence to all Treasury Board policies and guidelines. When the Comptroller General outlined his plans to the Public Accounts Committee on January 30, 1979, he referred to the letter from the President of the Treasury Board mentioned above and went on to say:

"I intend to do two things as part of the next step in evolving to the desired audit approach. The first entails the incorporation into an integrated plan all internal audit activities of an organization. This will be accomplished during 1979/80 as a direct result of the IMPAC review. The second involves the commitment and gradual integration of all audit activities into one organization in departments and expansion of the recently issued financial audit standards to encompass the full scope of internal audit. This will be accomplished over a longer time frame and will involve additional work at both the Treasury Board and departmental levels."

He also addressed the need for integration of audit activities:

"Most major departments have, or are in the process of establishing, a single integrated internal audit function. Over time, all departments and agencies will be required to consolidate their internal audit responsibilities into a single unit. Regardless of whether internal audit is organizationally integrated, there is a requirement for an integrated internal audit plan. Such a plan is particularly significant as a temporary measure to compensate for problems associated with lack of organizational integration. It should ensure that overlaps and gaps in coverage are minimized and that an effective mechanism for co-ordinating audit activities exists."

6.106 We welcome the leadership and initiatives of the Comptroller General. He has assigned a high priority to internal audit, as shown in his remarks to the Centennial Conference of the Office of the Auditor General held in December 1978, in his testimony before the Public Accounts Committee, and in the emphasis he has given to internal audit in both the IMPAC survey and the 1979 policy statement. He has also been providing advice and leadership to the internal audit community, and he has been endeavouring to co-ordinate audit training.

6.107 The most important of the Comptroller General's initiatives in the past year is his Improvement in Management Practices and Controls (IMPAC) survey which devotes much attention to internal audit. The internal audit review uses as a base the Standards for Internal Financial Audit, referred to earlier, appropriately modified to broaden their scope. Eventually, we would expect to see standards that would serve a comprehensive internal audit mandate.

6.108 There are still some important, unresolved issues which must be dealt with:

- many departments have yet to develop an audit plan satisfying the Treasury Board President's commitment or the Comptroller General's standards;
- the Comptroller General's standards need to be expanded to cover all aspects of comprehensive auditing;
- the organizational arrangements in some departments do not ensure the necessary objectivity and independence;
- strong leadership and technically proficient staff are needed to carry out the type of internal auditing required by an organization as large and complex as the Government of Canada; and
- audit committees ought to be established having representatives of the business community as members.

Much has been achieved by the Comptroller General; much, however, has yet to be done.

ELECTRONIC DATA PROCESSING CONTROLS

ELECTRONIC DATA PROCESSING CONTROLS

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ELECTRONIC DATA PROCESSING CONTROLS

Introduction

7.1 Chapter 2 defines the electronic data processing (EDP) controls component of comprehensive auditing as:

"an evaluation of controls over financial and other information processed by computers and of management controls over the use of computer-related resources."

7.2 There are two reasons why EDP controls are singled out for particular attention in the audit. First, the dramatic advances in EDP technology are continuing to have a major impact on clerical and administrative functions which are a major cost of Government. The diversity of opportunities for using EDP equipment, resulting from its reduced cost, makes it increasingly important to improve management controls in this area. Second, the application of EDP technology to government information systems significantly alters financial control techniques, thereby affecting all other components of comprehensive auditing.

7.3 **Computer and Information Systems Evaluation.** The Computer and Information Systems Evaluation Study (CAISE) reported in 1977 on the impact of EDP on financial controls, and on management controls over the use of computer resources. The Study examined nine major computer-based systems in seven departments and appraised the Treasury Board Secretariat's co-ordination and monitoring role in developing and applying appropriate controls.

7.4 The findings of the CAISE Study were set out in our 1977 Report. The Study concluded that:

- "Significant improvements are required and can be made in the process by which EDP resources in the Government are managed and controlled both by departments, which have primary responsibility for the management of these resources, and by the Treasury Board Secretariat, which has the government-wide responsibility for monitoring and co-ordinating the use of these resources".
- "Controls over certain of the computerized systems reviewed, which process and account for many billions of dollars of public funds, are inadequate to ensure the accuracy, completeness and proper authorization of the financial information being processed...".

Improving the Management of EDP Systems

7.5 In much the same way as EDP systems for airline reservations provide a responsive service to the travelling public, EDP plays an important role in the delivery of many government programs. EDP systems support government administrative functions, not only by providing ready access to information, but also by helping ensure that the procedures laid down by Parliament or the Government are enforced consistently, and that information is collected accurately. To make effective use of EDP in operational programs, managers must have the same freedom in deciding how to apply it as they have in applying other resources.

7.6 The audit criteria described in Chapter 6, Management Controls, are clearly relevant to EDP in view of the impact that its proper use can have on productivity. This Chapter interprets these criteria more specifically by applying them to the management of EDP resources and information systems.

7.7 Effectiveness. Over the last two decades, the capabilities and productivity of EDP equipment have improved tenfold about every four years. Each new generation of equipment spawns new processing approaches and broadens the range of feasible applications. These new approaches present both risks and opportunities. The rate at which new EDP methodology can be introduced, however, is limited by the size and complexity of the systems involved. With new approaches appearing faster than they can be implemented, effective use of EDP resources requires strategic planning.

7.8 Strategic planning should examine all major choices, such as changes in information systems, new operational procedures of the department, and centralized or distributed computer hardware. As the EDP requirements are compiled, system improvements can be dovetailed with other changes necessitated by growth. Plans can take into account such restraints as are dictated by the need to manage the pace of change or by scarce resources and skills.

7.9 Strategic plans are also important on a government-wide basis since they provide central agencies with sufficient notice of departmental plans to allow for effective co-ordination wherever it would be advantageous.

7.10 Departments should review all major operational EDP systems for continued cost-effectiveness every three to four years. Users of these systems will often identify deficiencies which can only be remedied by a different type of EDP service. The findings of these reviews should be addressed in the plan.

7.11 Efficiency. A well-designed computer system, which properly supports and responds to data processing needs, can result in significant gains in productivity. Poorly designed systems will have the opposite result. The increasing use

of EDP systems in program delivery functions, and the tendency to have these developed by people unfamiliar with program objectives, make inefficient systems more likely.

7.12 Efficient use of centralized EDP facilities requires that a range of services be offered, each with defined service objectives, and charged out in proportion to the resources used. This will encourage users and designers to specify the least costly service that is suitable for their needs. Managers of data processing facilities are then able to focus their attention on the productivity gains they can achieve from the equipment available to them.

7.13 **Economy.** Computer technology continues to change rapidly. Most EDP systems are obsolete in five years or less. Economic use of EDP systems, therefore, requires a clear understanding of the expected life cycle of each development or acquisition. This starts from the assumptions outlined in the strategic plan. These must be recognized in any justification analysis.

7.14 The implementation of computer systems, whether by acquisition or development, requires a detailed feasibility study which carefully evaluates the needs and the alternative means of satisfying them. The most cost-effective alternative compatible with the strategic plans of the department is then selected. All assumptions made in the analysis should be documented so that post-implementation evaluation can be effective. Cost reduction assumptions used in the justification must be acceptable to those who will be accountable for making them happen.

7.15 Once systems are authorized, project controls are necessary to ensure that they are delivered according to specifications, on time, and at approved costs. A formal acceptance procedure should ensure that equipment, computer procedures and documentation, as well as training and standards for all clerical staff affected, are as specified.

7.16 **Audit criteria.** *To ensure effective use of EDP resources, management of each department should:*

- *develop EDP strategic plans that document assumptions about changing requirements and technology, identify the best approach to using EDP resources, and provide objectives which can be measured; and*
- *periodically evaluate all major EDP systems.*

To ensure efficient use of EDP resources, management of each department should:

- *specify quality standards for each type of EDP service provided;*
- *properly cost each type of EDP service;*

- *require users and systems designers to justify the level of service requested; and*
- *use performance data to compare performance to standards set both inside and outside the Government.*

To ensure economical use of EDP resources, management of each department should:

- *evaluate development or acquisition decisions in relation to an approved strategic plan;*
- *justify major commitments by a feasibility study;*
- *apply project control throughout the implementation of new systems; and*
- *formally accept the resulting operational systems after implementation.*

Improving Controls in EDP Systems

7.17 The purpose of controls within EDP systems is to ensure the reliability of information and the protection of property and information.

7.18 Different kinds of financial controls have been required since EDP systems first appeared in the 1950s. Before then, data processing was done by people, and control over the completeness, accuracy and authorization of transactions was exercised by segregating, independently comparing, and reviewing the work done. With the advent of computers, the design of information processes shifted from the financial officers (well-versed in these controls) to data processing specialists whose attention was almost entirely on "getting the job done". At the same time, increased centralization to make maximum use of computers led to extremely high processing volumes and consolidation of functions.

7.19 The high volume forced management to turn to exception reporting and summary information for authorization and control purposes, and shifted much of the reliance for individual transaction control to the computer systems that produced this information. New methods of financial control were required. These were designed by EDP specialists because the financial officers were unfamiliar with computer systems. Because data processing managers were generally unfamiliar with financial and authority controls, systems were often inadequately controlled.

7.20 This situation is common in the private sector as well. But in Government, the problem is more severe because financial officers have relatively less authority and processing volumes are significantly higher.

7.21 Financial controls. Financial controls are used to ensure that data are complete and accurate and that transactions are properly authorized. An audit trail must be maintained for all transactions with financial significance. Although computer system controls must be designed by EDP specialists, control specifications are the responsibility of financial officers. To ensure that their relative roles are clearly understood, both require adequate knowledge of the other's concerns so that they can interact effectively.

7.22 Financial officers should formally review all systems with significant financial consequences, whether outside systems are used or whether they are developed internally. These reviews should ensure that the system meets management's needs, complies with regulations and has adequate financial controls. The system should subsequently be covered by normal internal audit procedures.

7.23 Operational controls. Controls are also needed over the processing facilities to protect against unauthorized access or accidental destruction. Computer systems and related hardware are costly to develop and acquire. Information processed and stored in these systems may be impossible to recapture, and the systems often contain data that are confidential or private in nature. Strong security is needed to protect both the facilities and the information stored in them.

7.24 Security reviews, emphasizing physical security, are now carried out by the RCMP at the request of departments. With the expanding use of computers, it will be necessary to make these reviews more comprehensive. Proper classification of data will avoid the cost of applying excessive security indiscriminately.

7.25 Audit criteria. *To ensure that information systems are well controlled, management of each department should:*

- *comply with control standards defined and published by a central agency for the installation and operation of EDP systems;*
- *ensure that financial officers are adequately trained to recognize and discharge their control responsibilities; and*
- *ensure that internal audit verifies that systems meet management's needs and comply with regulations and control standards.*

To protect EDP facilities and information, management of each department should:

- *classify all data in terms of the security level required for sensitivity and for protection from loss;*
- *provide protection against loss in the most cost-effective way for each category of data;*

- *provide protection against access consistent with the level of sensitivity; and*
- *ensure that physical security is at the level required for the most sensitive data that may be accessed.*

Government Action

7.26 The Administrative Policy Manual, amended in 1979 by Treasury Board, contains sections dealing with EDP management responsibilities relative to planning, approval and development. These directives and guidelines adequately address the issues of economy and effectiveness. Efficiency is addressed only in terms of computer performance.

7.27 The sections of the Manual dealing with EDP records management and security also satisfy the requirements for operational controls. The classification system for data, however, does not yet include a category for data on individuals, although a policy and directives relating to the classification levels of "sensitive information" are being prepared.

7.28 In the area of financial controls, the Comptroller General has acted to define the relative responsibilities of departmental financial and data processing personnel for controls in EDP systems.

7.29 The Treasury Board Guide on Financial Administration is being revised to include:

- a definition of the roles and responsibilities of financial personnel in the development of related EDP systems; and
- a listing of the control techniques available for EDP systems.

7.30 Standards for Internal Financial Audit in the Government of Canada, recently issued by the Office of the Comptroller General, refers to the audit of EDP systems. Further work is planned to develop more specific standards for EDP audit, and to hire and train EDP auditors for departments.

7.31 We will continue to monitor progress to determine whether standards and guidelines are implemented and the needed improvements result.

CONTROL AND ACCOUNTABILITY OF CROWN CORPORATIONS

CONTROL AND ACCOUNTABILITY OF CROWN CORPORATIONS

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CONTROL AND ACCOUNTABILITY OF CROWN CORPORATIONS

Introduction

8.1 Purpose of Chapter. At present, there are some 400 corporations wholly or partially-owned or controlled by the Government of Canada. They range in size from some of Canada's largest transportation, manufacturing and financial corporations such as the Canadian National Railways and Canada Mortgage and Housing Corporation to small promotional and service entities. Together, 20 of the largest corporations have revenues of over \$8 billion, assets with a book value in excess of \$39 billion and over 169,000 employees. These 400 corporations include entities now described as Crown corporations in Schedules B, C and D of the Financial Administration Act, subsidiary corporations and their subsidiaries, other Government corporations, mixed enterprise corporations, associated corporations and other entities.

8.2 The 1976 Report contained the second phase of this Office's Financial Management and Control Study, which included an examination of Crown corporations listed in Schedules C and D of the Financial Administration Act for which the Auditor General is the appointed auditor. Since then, much discussion has taken place on control and accountability of Crown corporations, and major initiatives have been taken to study the issues raised and other related matters, and to advance the process of revising Crown corporation legislation. Accountability of Crown corporations was a major concern for the Royal Commission on Financial Management and Accountability (Lambert Commission).

8.3 This Chapter reviews developments since our 1976 Report, compares the major findings of this Office and the Public Accounts Committee with those of the Lambert Commission and with the Government's current proposals in significant issue areas, and sets out matters which this Office believes parliamentarians should consider in reviewing draft legislation on Crown corporations. The Speech from the Throne of October 9, 1979 stated that legislation will be introduced to strengthen control over and accountability of Crown corporations.

8.4 Our comments related to the Government's current proposals throughout this Chapter are based on discussions up to November 6, 1979, with the Minister of State (Treasury Board) and the chairman of the Government's inter-departmental task force. It is possible that the Government's proposals will evolve further before legislation is passed and we will comment in the future on any significant changes that occur. However, we believe that, if legislation is implemented in accordance with the proposals as we now understand them, and if it is applied to all wholly-owned corporations, the result will represent a major step toward achieving effective direction, control and accountability of Crown corporations.

8.5 Financial Management and Control Study and subsequent initiatives.

The 1976 Report included 18 main recommendations of government-wide significance, in addition to recommendations on 27 individual corporations studied that year. The recommendations were mainly directed to Crown corporations that are audited by this Office and which are dependent on the public purse or which carry on operations of a governmental nature.

8.6 The 1976 Financial Management and Control Study Report concluded that:

"In the majority of the Crown corporations audited by the Auditor General, financial management and control is weak and ineffective. Moreover, co-ordination and guidance by central government agencies of financial management and control practices in these Crown corporations are virtually non-existent".

8.7 Both the government-wide recommendations and the more specific recommendations on individual Crown corporations were aimed at giving Parliament and the Government more effective control over the activities of corporations financed in whole or in part by the public purse, and at ensuring adequate control of the public funds involved. The major initiatives taken since our 1976 Report are discussed in the following paragraphs.

8.8 *Public Accounts Committee reports.* Immediately after the tabling of our 1976 Report, the Public Accounts Committee began deliberations on matters raised therein. Those proceedings, together with hearings on the trade practices of Polysar Limited, resulted in three separate reports to the House of Commons: The Polysar Report (July 7, 1977), The Atomic Energy of Canada Limited Report (February 27, 1978) and The Crown Corporations Report (April 11, 1978). The main thrust of these reports was to endorse the conclusions of our 1976 Report and to make further recommendations on trade practices, codes of ethics, and responsibilities of boards of directors and auditors.

8.9 *Government of Canada proposals.* On April 18, 1977, following study by the Privy Council Office, the Government issued its proposals on some of the issues raised by this Office as well as on the wider question of the relationship between Crown corporations, ministers, the Government and Parliament. The Government requested and received from interested parties many responses, including one from this Office which was described in Chapter 9 of the 1977 annual Report. Since 1977, the Government's proposals have evolved significantly.

8.10 In 1978, the Government established an inter-departmental Crown corporations task force chaired by a representative of the Privy Council Office to review responses to the 1977 proposals and to make recommendations for drafting a "Crown Corporations Act". We have met with the Minister of State (Treasury

Board) and on several occasions with the chairman of the task force to discuss and review the Government's current positions. The chairman of the task force has advised our Office that the task force has recognized the concerns raised by our 1976 study and, where possible, drafted proposals consistent with our recommendations and those of the Public Accounts Committee.

8.11 *Final Report of the Lambert Commission.* The Lambert Commission was established on November 22, 1976, and its terms of reference called for:

"a comprehensive inquiry...into the best means of providing for financial management in the federal administration of Canada, including departments and Crown agencies, and for the accountability of deputy ministers and heads of Crown agencies for their administration, including evaluation of their performance in this regard; taking into account the constitutional roles and responsibilities of Parliament, Ministers and the Public Service, and more especially the principles of the collective and individual responsibilities of Ministers to Parliament".

The Commission submitted its Report in March 1979, and this Chapter includes comments on the Commission's findings and recommendations as they relate to Crown corporations.

8.12 *Scope of Chapter.* Of the 400 corporations owned or controlled by the Government of Canada, there are at least 176 where the Government is in fact directly or indirectly the sole owner. We understand that the Government's current proposals are restricted to corporations which are wholly-owned, all of which would be defined as Crown corporations.

8.13 Controls over mixed and joint-enterprise corporations will be addressed as a separate issue, but the Government's general intention is apparently to exercise Canada's shareholder prerogatives through the relevant companies legislation. Although the Lambert Commission and the Public Accounts Committee made recommendations on controls over partially-owned corporations, none are audited by this Office and neither we nor the Government have conducted a study of them. In view of the investment in such enterprises, we think that a study of their control and accountability, similar to that performed for those which are wholly-owned, is long overdue. Controls over these enterprises will be considered in detail by this Office after the Government has carried out its study.

8.14 Of the 176 Crown corporations, the Government task force currently considers at least 21 to be departments having a corporate form. These corporations would be subject to departmental financial management and control rules. This Chapter will address the controls and accountability relating only to the remaining 155 Crown corporations.

Public Ownership and Accountability

8.15 The ownership principle. The Government has generally used the corporate form of organization for conducting certain types of activity so that such entities have a measure of operating freedom from the close financial and personnel controls of government departments and from the possible interference by Parliament and Government in the day-to-day management of these activities. However, certain basic characteristics must be recognized when the Government creates or acquires wholly-owned corporations:

- the Government of Canada, as sole shareholder, has rights and obligations which are usually no less than those of sole shareholders in the private sector and it must exercise these rights and fulfil its obligations to protect the interests of taxpayers;
- Crown corporations are created primarily to achieve public policy objectives that are not primarily the earning of profit; and
- the Government of Canada is usually the major and sometimes the sole source of financing, and substantial amounts of public funds are therefore at stake.

8.16 This combination of factors presents unique problems in establishing an appropriate system of accountability which balances the corporations' need for reasonable autonomy with the appropriate level of direction and control. The Public Accounts Committee in its Crown Corporations Report concluded that:

- "(a) the corporate form of organization as now used makes it possible for government activities involving the spending of substantial amounts of public funds to be carried on without adequate accountability to Parliament and Government. To protect the interests of the people of Canada, immediate action is essential to improve the way Parliament and the Government establish and set objectives for government-controlled corporations and monitor, control and receive an accounting from them; and
- "(b) although many practices now permitted are quite suitable for commercial financially viable corporations, government-controlled corporations should receive this freedom only when they meet Parliament's criteria for being truly commercial and do not intend to seek significant government funds. Your Committee believes that all public funds demand public accountability, regardless of the form of organization through which the funds are administered".

8.17 The ownership principle, simply stated, is that Parliament, representing the Canadian taxpayers, has a right and responsibility to ensure that Crown corporations are accountable for the achievement of government policy objec-

tives. Because these objectives can seldom be measured on the basis of profitability, an examination of financial performance alone is not a sufficient basis for assessing performance in the achievement of the corporation's objectives. This factor, together with the absence of market forces, such as the pervasive influence of investing and lending institutions to which management in the private sector is normally subjected, demands of Crown corporations a different form of accountability from that found in the private sector. Moreover, because the boards of directors, the Ministers and Parliament depend on management of Crown corporations to provide the information necessary to fulfil their roles, there is a need for an adequate system of control and accountability and of public reporting to ensure the integrity of the whole process.

8.18 A framework for accountability. In some quarters, there appears to be a perceived conflict between the need for accountability to Government and Parliament and the corporation's need for managerial autonomy to achieve its objectives efficiently and effectively in a corporate environment. We believe that it is possible to establish an effective system for control and accountability of Crown corporations without infringing unduly on the freedom that managers need to carry out corporate activities effectively.

8.19 An adequate system of accountability for Crown corporations requires a legislative and administrative framework that includes

Mandate, direction and control:

- parliamentary control over the creation of Crown corporations;
- clear statements of objectives against which to measure corporate performance;
- communication of government priorities;
- scheduling of all Crown corporations, according to clearly stated criteria, to provide for the appropriate degree of control;
- controls over the appointments of directors, chairpersons and presidents;
- submission of corporate plans for review; and
- controls over spending, commitment and borrowing powers.

Reporting:

- reporting to Government and Parliament of results and costs in relation to objectives and authorized expenditures; and
- review and assessment of reported performance by Government and Parliament.

Audit:

- comprehensive auditing to provide an independent appraisal for management, boards of directors, the responsible Minister and, if appropriate, Parliament, on the adequacy of essential management controls and reports.

8.20 These elements, which are discussed more fully in the remainder of this Chapter, are essential to ensure that corporations, which are wholly-owned by the Canadian taxpayers, operate under a proper system of accountability; and that proper controls exist over the public funds expended through Crown corporations.

Reporting to Parliament

8.21 Introduction. Reporting and auditing are the final links in the chain of accountability for Crown corporations that Parliament either creates, or authorizes creation or acquisition of, to achieve national interest objectives. Crown corporations are responsible for pursuing policy objectives that are never solely profit-oriented, nor are their achievements demonstrable by solely following reporting practices similar to those in the private sector. Public ownership and national interest objectives dictate that measuring, reporting, assessing and auditing the performance of Crown corporations extend into new ground not addressed by the private sector's reporting and auditing standards.

8.22 We discuss reporting to Parliament from two perspectives: reporting of the extent of achievement of objectives, and financial reporting.

8.23 Reporting of the extent of achievement of objectives. The annual reports of Crown corporations constitute a critical link in the process of accountability to Parliament. Although they have been given some independence from the government process, Parliament needs information on the extent to which they achieve their objectives.

8.24 In 1976, this Office reported that the information in annual reports of Crown corporations was not adequate or suitable for parliamentary assessment of their activities. This Office recommended that the Treasury Board issue guidelines to Crown corporations on the form and content of corporate annual reports.

8.25 This year, the Office reviewed the annual reports of corporations that the Lambert Commission proposed to classify as Crown corporations to assess the quality of their reporting practices and to identify areas where central agency direction was needed to achieve improvement. We concluded that no noticeable improvement has been achieved since our 1976 Report to Parliament. In general,

reporting practices fall short of the best private sector practices in disclosing financial information, and little effort has been made to provide suitable reporting on how economically, efficiently and effectively Crown corporations achieve their objectives, including those of broader national interest.

8.26 The Lambert Commission referred to "criticism that many reports fail to meet an acceptable private sector standard, let alone a standard that should be a model for the private sector," and commented that the annual reports "should provide the crowning piece to an accountability regime." Our review suggests that major improvements are needed to provide Parliament with the information it needs to assess performance in relation to plans and objectives.

8.27 In the private sector, no single authoritative body has been responsible for setting standards of reporting for corporate annual reports. However, practices have evolved over time, and continue to evolve, in response to the need for information on profit and financial condition, and to the requirements of investors, security commissions and other regulatory authorities, and the accounting profession.

8.28 While we encourage Crown corporations to model their financial reporting practices on the best practices of the private sector, what is needed is an organized development of generally accepted reporting practices for Crown corporations that recognize their unique ownership, policy objectives and accountability.

8.29 A fundamental reassessment of Crown corporation reporting objectives is needed to develop an appropriate accountability and reporting framework. Such a reassessment must begin by clearly identifying the intended users of Crown corporation annual reports and their needs. The reporting of additional information requires the development of new methods and procedures which can, over time, gain some degree of acceptance as reasonable bases for measuring the achievement of non-financial objectives. Finally, minimum standards of reporting must be developed as well as systems to control and monitor compliance with such standards. We agree with the Lambert Commission that government commitment to such a program is needed.

8.30 The reporting practices of Crown corporations must change and someone must initiate the changes. Since the Government is ultimately accountable, it should take the initiative through a central agency to identify minimum reporting standards. Corporate boards of directors should then tailor their reports to reflect the Government's minimum guidelines and the unique activities of each corporation.

8.31 We believe that the Treasury Board, through the Comptroller General is in the best position to provide leadership in initiating action to study the

objectives of reporting for government-owned corporations, and to develop and expose for comment proposed guidelines and compliance standards. We strongly support the Government's current proposals which will authorize the Treasury Board to develop and issue guidelines to Crown corporations on preparing annual reports. The proposals will require the Treasury Board to approve the form of the annual reports and the subject matter to be covered in them.

8.32 Improving the reporting practices of Crown corporations will require the time, co-operation and support of boards of directors and management. Boards and management are clearly in the best position to encourage and begin to develop improved reporting practices in their corporations. Crown corporations should begin to implement improved standards immediately by ensuring that their annual reports contain:

- clear statements of major objectives by division and activity, together with strategies for meeting them, as well as information on the organization and physical facilities established to attain them;
- clear identification of objectives that can be reasonably measured, given the state of the art and other constraints; and
- reporting on the extent of achievement of measurable objectives in relation to plans, together with explanations of the methods and assumptions used to measure the results.

8.33 This Office also supports the Lambert Commission's recommendations on information disclosure in annual reports. The quality of annual reports would be improved by implementing the Commission's suggestions for disclosing a brief version of a corporation's strategic plans, the financial statements of its subsidiary companies, information on directives from the Government, and current activities compared to plan.

8.34 **Financial reporting.** This Office's 1976 Report addressed the financial reporting requirements of Crown corporations from two perspectives: corporate financial statements and financial disclosure in the Public Accounts.

8.35 We understand the Government's current proposals would require Crown corporations, other than departmental corporations, to prepare their financial statements in accordance with generally accepted accounting principles (GAAP) as promulgated by the Canadian Institute of Chartered Accountants. Any departure from these principles would require approval from the Treasury Board, although departures could not result in a lower standard than GAAP. In any event, any departure from GAAP would require full disclosure. Adoption of these proposals should resolve this Office's concern that a number of Crown corporations have not traditionally adhered to generally accepted accounting principles in their financial reporting practices.

8.36 In 1976, this Office expressed concern, which the Public Accounts Committee endorsed in its Crown Corporations Report, that the Public Accounts of Canada do not provide Parliament with corporate financial data appropriately integrated with departmental data, and comparisons of actual results with plans. Although financial statements of Crown corporations are printed separately in Volume III of the Public Accounts, financial information for Crown corporations grouped with departmental data in Volume II is usually limited to disclosure of the appropriations obtained by them.

8.37 Crown corporation objectives are usually related to broader ministry objectives, and information on government activities should be presented on an integrated basis regardless of the form of organization used to conduct them. For example, the construction and operation of Canadian waterways and related facilities is undertaken partly by Crown corporations and partly by the ministry. Harbours, certain toll canals and pilotage services are operated by Crown corporations while lighthouses, ice-breakers and non-toll canals are financed directly through parliamentary appropriations. Although these facilities are closely regulated and interrelated, the lack of financial information and detail on Crown corporations in Volume II makes it virtually impossible for the reader to relate the activities of the corporation to the departmental activities explained in that volume.

8.38 In addition, in 1976 we stressed the need for summary analyses and explanations of the financial statements of Crown corporations in order for the reader to assess the collective impact of such corporations on the Accounts of Canada.

8.39 We understand that the Government's proposals do not address our recommendations for improving the presentation of Crown corporation results in the Public Accounts. We believe that our recommendations would significantly improve the information Parliament receives and urge the Government to reconsider this matter.

Comprehensive Auditing

8.40 **Accountability reports and the auditor.** Traditionally, managers have been held accountable for their performance by shareholders and other interested parties through assessment of the financial reports they provide. The auditor's role of adding credibility to management's reports has gained acceptance over time as an integral part of the accountability process because of his independence and his adherence to the generally accepted auditing and reporting standards of his profession.

8.41 As this Chapter has stressed, the public ownership and accountability of Crown corporations clearly call for different forms of accountability reports than those used in the private sector. Since all Crown corporations are created or

acquired to carry out public policy objectives, these objectives take precedence over and often preclude profit maximization. Since profit is not the key criterion of performance, conventional audited financial statements alone cannot be expected to disclose adequately management's performance in the economical and efficient use of public funds and in the achievement of objectives, including those of broader national interest.

8.42 Parliament's needs are not restricted merely to more and better information on Crown corporations. They also include, as in the private sector, the need for a measure of assurance that the reporting is fairly presented in accordance with accepted conventions. This need can only be met by broadening the scope of the auditor's traditional responsibilities to encompass an examination of the broader range of pursuits for which Crown corporations are accountable.

8.43 Chapter 2 of this Report discusses comprehensive auditing for Parliament, reviews the responsibilities of the Auditor General, and provides a description of comprehensive auditing and our progress in developing this broad-scope audit approach. Chapter 2 also discusses the legislative auditor's broader reporting responsibilities, compared to those of private sector auditors. The direct reporting responsibilities of this Office are set out in the Auditor General Act.

8.44 Comprehensive auditing extends the scope of the auditor's examination beyond the traditional audit of financial statements. It includes a more detailed review of financial management and control, and an examination of the economy and efficiency aspects of the enterprise's activities as well as an assessment of the adequacy of procedures to measure effectiveness in the attainment of its objectives.

8.45 We understand the Government's current proposals would require auditors of Crown corporations to perform value-for-money examinations and would encourage the auditors to perform their audits in compliance with guidelines established by this Office and followed in this Office's own audits of Crown corporations pursuant to the Auditor General Act. We strongly endorse the Government's intention of providing this broader scope of responsibilities for auditors of Crown corporations.

8.46 **Comprehensive auditing - part of the accountability process.** In time, as corporations improve their reporting to meet the accountability needs of Parliament, the role of the auditor of Crown corporations will shift towards examining and reporting on the reliability of management's reports. However, as we have stated in our review of the current reporting practices of Crown corporations, their reporting practices need major improvements to provide Parliament with the information it needs to assess performance in relation to plans and objectives.

8.47 Both the Lambert Commission and the Government's current proposals recognize the need for fundamental changes to improve the existing accountability framework. Clarification of corporate legislative mandates, strengthening of boards of directors, development of sound financial management practices, and improved reporting are all necessary to strengthen the accountability framework. All would be furthered by implementation of the Government's proposals.

8.48 We are encouraged by the Government's direction in developing an improved accountability system for Crown corporations. However, improvements in all of these areas will necessarily be gradual and will not occur immediately. We see the need to have in place a mechanism to inform managers, boards of directors and, where appropriate, the Government (through the responsible minister) and Parliament of any inadequacies in the management controls and accountability reports. Clearly the public ownership of these corporations by the Canadian taxpayers dictates this need for accountability for public funds. It can be satisfied by the auditor performing comprehensive audits and providing constructive reports on matters requiring corrective action.

8.49 **Reporting the results of comprehensive audits.** Chapter 2 of this Report discusses the unique direct reporting responsibilities of legislative auditors, and the two forms of direct reporting: special studies and comprehensive auditing. In developing a policy on reporting the results of comprehensive audits of Crown corporations, the auditor must recognize that Crown corporations have generally been organized in a corporate form to provide a measure of independence from Parliament and Government in the management of their activities.

8.50 We are proposing that the results of comprehensive audits of Crown corporations first be discussed with management to ensure accuracy and to obtain responses. A summary of the most significant matters presented to management would be included in a report to the board of directors of the corporations. The corporation's audit committee would provide the auditor with an appropriate forum to present and discuss these findings.

8.51 Finally, the auditor must carefully consider whether any of his findings are so significant that they warrant the attention of Parliament. Where the auditor concludes that certain findings from a comprehensive audit must be brought to the attention of Parliament, these findings would be reported to the responsible minister, as now required by Section 77(1) of the Financial Administration Act, for tabling in Parliament. We understand the Government will provide for reporting to Parliament in the new Crown corporation legislation.

8.52 To provide Parliament with a reference source, this Office would publish all such observations in its annual Report to the House of Commons as recommended by the Public Accounts Committee in its July 7, 1977 Report.

8.53 Development of comprehensive audit methodology. Chapter 2 of this Report provides a progress report on our continuing research into comprehensive audit methodology. The progress to date has given this Office a basis for providing guidelines to auditors of Crown corporations to enable them to discharge the Government's proposed broadened scope of responsibilities which corresponds to the recommendations of the Public Accounts Committee.

8.54 We recognize the need to develop and tailor our methodology for Crown corporations to ensure that comprehensive audits provide objective and constructive suggestions to managers and, where appropriate, to assist Parliament with its information needs. To this end, the Office has selected seven key Crown corporations in which comprehensive audits will be conducted over the next two years. The experience acquired with this "laboratory" group will assist in developing a sound approach to the comprehensive audits of Crown corporations. These proposed comprehensive audits include five corporations for which we are the auditors and two corporations audited by private accounting firms. We have initiated meetings with the presidents of the seven corporations and the private sector auditors to solicit their support and assistance in the further development of comprehensive audit methodology and in considering the reporting implications resulting from such audits. In this program, the Auditor General will have the benefit of consultation with and advice from the members of his Panel of Senior Advisors comprising the heads of four national firms of chartered accountants and three national firms of management consultants.

Mandate, Direction and Control

8.55 Introduction. An adequate system of accountability for Crown corporations starts with the establishment of clear mandates and includes effective communication of direction to corporations and an appropriate degree of control over their actions. These elements, together with proper reporting and comprehensive auditing, are essential if Crown corporations are to be held truly accountable to Parliament.

8.56 The Government's proposals deal with many of the issues relating to mandate, direction and control raised by this Office in the past, starting with the 1976 Report. Some of these are crucial to a proper system of accountability and this part of the Chapter reviews the issues we are most concerned with and the manner in which the proposals would deal with them.

8.57 Creation and classification of Crown corporations. In 1976, we reported that in some aspects the controls required for Crown corporations differ depending on whether they are financed by the Government and carry on operations of a governmental nature, or whether they meet the test of financial independence and carry on commercial activities. Dependent corporations require more stringent controls because their continuous need for public funds calls for closer reviews of plans and for limitations on their powers to spend and commit current and future government revenues.

8.58 We encountered significant difficulty in 1976 in identifying all of the corporations in which Canada had an equity interest. The schedules to the Financial Administration Act included only a small portion of such corporations. The criteria for classifying them into groups requiring similar controls were vague and the existing criteria for classification of corporations were not adhered to.

8.59 In response to our recommendation that all corporations owned or controlled by Canada be identified in and subject to omnibus legislation, the Government conducted a lengthy project to attempt to identify and list all such corporations. To date, over 400 wholly or partially-owned corporations have been identified and the search for others continues.

8.60 The Public Accounts Committee, in its Crown Corporations Report, endorsed our recommendations for scheduling of corporations and further recommended that:

- redefined criteria for scheduling all government-owned corporations be specified in legislation; and that
- additions to, deletions from and transfers of corporations within schedules require Governor in Council approval.

8.61 *Creation.* We understand that under the Government's current proposals the creation of a Crown corporation would require statutory authority and Governor in Council approval by public order and that all changes to schedules would require Governor in Council approval by public order. This would ensure that the Government approves, and that Parliament is advised of, all additions to, and deletions from the schedules. This would satisfy the recommendations of this Office and the Public Accounts Committee in this area.

8.62 *Classification.* Since 1976, classification of Crown corporations has been further considered by the Lambert Commission and by the Government. The Lambert Commission proposed only one classification for Crown corporations and thereby one basic set of controls for those corporations now listed in Schedules C and D to the Financial Administration Act.

8.63 From our discussions with the chairman of the inter-departmental Crown corporations task force, we understand that the Government intends to segregate wholly-owned corporations into five groups as follows:

- Schedule B to the Financial Administration Act would include corporations which would be treated as departments for financial management and control purposes;
- Schedule I to the Crown Corporations Act would include corporations which depend on the Consolidated Revenue Fund to cover

operating or capital costs through appropriations, loans or grants;

- Schedule II(a) to the Crown Corporations Act would include corporations which meet the legislative criteria of general independence from the Consolidated Revenue Fund for financing operating and capital expenditures and commitments, and which operate in an essentially monopolistic marketplace;
- Schedule II(b) to the Crown Corporations Act would include corporations similar to those in Schedule II(a) but which operate in a competitive marketplace; and
- Schedule III would be referred to as the "excluded schedule" and would include the Bank of Canada and six cultural corporations.

We support the Government's proposed system which would fulfil the intent of our recommendations for classification by segregating for control purposes dependent corporations from those which are self-sufficient.

8.64 *Implications of classification.* We understand that under the Government's current proposals, the only difference between legislative controls over Schedule II(a) and II(b) corporations is that Schedule II(a) corporations would have to submit capital budgets for approval of the Treasury Board while Schedule II(b) corporations would not.

8.65 The differences between the controls that would apply to Schedule I and II corporations are more substantial. In addition to the controls for Schedule II corporations, Schedule I corporations would be required to:

- obtain Governor in Council approval before by-laws come into effect;
- obtain long-term financing only from the Consolidated Revenue Fund;
- obtain Minister of Finance approval of the terms and conditions of short-term financing; and
- prepare annual operating budgets for central review and tabling in Parliament.

In addition, Schedule II(a) and II(b) corporations may be subject to review by a special committee of the House of Commons while Schedule I corporations would remain the responsibility of the relevant policy committees. While the proposals will not specifically require the appointment of the Auditor General as auditor of Schedule I corporations, we understand this has been and will continue to be the policy of the Government.

8.66 Generally, we do not object to exempting Schedule II corporations from the additional controls proposed for Schedule I corporations. The difference in controls over Schedule II(a) and II(b) corporations also appear acceptable if the Government implements its proposal to provide Parliament with a précis of corporate plans. This is discussed further in this Chapter under the heading of Preparation and Review of Financial Plans.

8.67 We understand that the Government intends to exclude the Bank of Canada from the provisions of the Crown Corporations Act. In addition, the six corporations considered to be cultural organizations would not be subject to the provisions of the Government's proposals. We understand the cultural organizations would be the subject of a joint parliamentary study to determine the controls that should apply to them. When that study is completed, they may be included in Schedule B to the Financial Administration Act or in schedules to the Crown Corporations Act.

8.68 The recommendations of the Auditor General, the Public Accounts Committee and the Lambert Commission did not recognize any special status for cultural agencies for purposes of financial control and accountability. The Government appears to be concerned that subjecting cultural agencies to the same rules as apply to other corporations could interfere with the freedom they require to ensure the continued independence and integrity of their functions. The Public Accounts Committee considered the Canadian Broadcasting Corporation and the National Arts Centre Corporation and concluded, in April 1978, that for all corporations, "proper classification for financial purposes would not interfere unduly with the operational independence they require to achieve their stated goals".

8.69 We believe it is important to distinguish between policy controls and management controls. Proper management control and accountability can be established without unduly interfering with the program decisions or the artistic integrity of cultural agencies. All cultural agencies clearly depend on the public purse and, as such, require the financial control and accountability proposed for other Crown corporations that depend on taxpayer funding. We strongly oppose the exemption of individual corporations, for any reason, from the controls called for by their public ownership and degree of public funding. Even one exemption would be a dangerous precedent that could result ultimately in a serious weakening of government and parliamentary control over all Crown corporations.

8.70 *Scope of schedules.* As mentioned previously, the Government is conducting a separate study of partially-owned corporations, which would be excluded from the Crown Corporations Act. In the meantime, the Treasury Board will give Parliament a list of all such corporations identified to date and will update it as required.

8.71 We understand that under the Government's current proposals all subsidiaries of corporations wholly-owned by Canada and their wholly-owned subsidiaries would be listed in the schedules of the Crown Corporations Act with their parent companies. The parent companies would be required to present consolidated budget documents and annual reports. Although subsidiaries would themselves be subject to a few of the provisions of the Act, in practice, responsibility for exercising control would reside with the parent company. The Government's current proposals appear to provide for appropriate control and accountability of subsidiaries within the framework that would apply to directly-held corporations.

8.72 *Specification of scheduling criteria.* This Office and the Public Accounts Committee believe it important to establish clearly the criteria for classifying corporations in the schedules to Crown corporation legislation. Establishing these criteria will help prevent both improper classification of corporations in the future and application of inappropriate controls.

8.73 We understand that the only criteria the Government intends to specify in legislation are those governing the inclusion of corporations in Schedules II(a) and II(b). Although this would assist in classifying corporations covered by the Crown Corporations Act, legislation would not contain criteria clearly distinguishing between corporations which should be included in Schedule B to the Financial Administration Act and those which should be included in Schedule I to the Crown Corporations Act.

8.74 Since significant differences in controls would apply to these two schedules, we believe that criteria for scheduling need to be specified. If they are not included in legislation, the Government should clearly and publicly state its intention on differentiating between dependent corporations to be classified in Schedule B to the Financial Administration Act and those to be classified in Schedule I to the Crown Corporations Act.

8.75 *Budgetary and accounting implications of classification.* Important budgetary and accounting consequences also result from the distinction between corporations that are financially dependent and carry on government operations, and those that are commercial and financially self-sufficient. Ample evidence exists that for the former group the choice between the departmental and corporate forms of organization appears primarily to be a response to differing operational needs rather than to their financial characteristics or to the nature of their activities since these are similar.

8.76 The Opinion of the Auditor General on the Financial Statements of the Government of Canada for the year ended March 31, 1978 contained the following reservation:

"All Crown corporations named in Schedules C and D to the Financial Administration Act are excluded from the accounting entity of the Government of Canada. In my view, certain of these corporations should not be excluded from the entity because they engage in government-type activities and are financially dependent on the public purse. If such corporations were included, the reported value of loans to and investments in them would be reduced to the extent it represents amounts, such as capital expenditures, that would have been charged to budgetary expenditure under the Government's stated accounting policies".

8.77 The Public Accounts Committee in its report of February 21, 1979, recommended that "the accounting entity of the Government of Canada should include all Crown corporations substantially dependent on public funds or carrying on government operations". This recommendation fully supported a similar recommendation included in this Office's 1976 Report.

8.78 Although the Government's current proposals include a discussion of the accounting entity, we understand that they do not reach a conclusion. Instead, the Comptroller General, in consultation with certain departments and agencies and with this Office, is reviewing the need for redefining the accounting entity. A redefinition can be implemented without any change in legislation. We believe that the definition proposed by this Office and the Public Accounts Committee would improve the basis for preparing the Accounts of Canada by presenting a more representative picture of the Government's activities.

8.79 **Boards of directors and central agency roles and responsibilities.** For many Crown corporations which are similar to departments in their activities and sources of funding, our 1976 annual Report recommended improved control by proposing additional responsibilities for a central agency (Office of the Comptroller General) and increased information for Parliament. Implementation of these recommendations, which were endorsed by the Public Accounts Committee in its Crown Corporations Report, would bring control over Crown corporations more into line with that exercised by central agencies and Parliament over government departments, while still providing an appropriate degree of operating independence to these corporations.

8.80 We suggested that central agency responsibilities include: recommending policies, directives and guidelines for financial management and control; advising on the form of the Estimates and the Public Accounts; approving and monitoring budgetary control, financial reporting and financial control systems; establishing standards for internal audit and accounting practices; and assisting in selection and training of financial staff.

8.81 The Crown agency section of the Lambert Commission Report adopts as one of its key themes an emphasis on the boards of directors of corporations as

a fundamental control element. The Commission stated that "we believe that the board of directors for each Crown Corporation should have assigned to it a clear and unequivocal mandate, together with the attendant powers, to manage and direct the operation". The Commission's recommendations would limit the Comptroller General's role in Crown corporations, and the majority of central agency responsibilities recommended by this Office would fall to the board of directors.

8.82 The Commission's Report dwells at some length on the need to exercise care in the selection of directors and states that, "only through the selection of board members with a variety of experience, background, and outstanding competence . . . will the board form approach its potential as a source of responsive guidance and sound managerial direction". While the Commission discourages the appointment of public servants and members of management to boards of directors, it does not specify criteria for the appointment of qualified board members.

8.83 This Office supports the significant strengthening of boards of directors that would be necessary to carry out the functions recommended for them by the Commission. This Office is concerned, however, that the Commission sees a strong board as a substitute in many areas for the involvement of the Comptroller General and Parliament in directing, controlling and monitoring the activities of Crown corporations.

8.84 We understand that the Government's proposals would preserve the present responsibility of the Treasury Board to approve the form of and the subject matter to be contained in budget documents. In addition, the Government proposes that the Comptroller General prepare guidelines to assist directors and officers of Crown corporations with matters related to financial management and control, including the form of budget documents and annual reports and the subject matter to be contained in them.

8.85 Because of the serious weaknesses we observed in Crown corporation financial management and control, we believe that ministers, boards of directors and management would welcome a central agency's guidance on standards and practices. These standards would not infringe on the responsibilities of boards and management. Instead, they would help them to establish essential controls.

8.86 We believe that the Government's proposals to clarify corporate mandates and government priorities would assist boards of directors in understanding and responding to government priorities. We also fully support the Government's current proposals calling for more careful selection of directors, a more responsible approach for boards, and the issuing of guidelines on financial management and control by the Comptroller General. We believe that implementing these proposals would increase significantly the effectiveness of the system for direction, control and accountability of Crown corporations.

8.87 Preparation and review of financial plans. The 1976 Report criticized the information that Government and Parliament received about the financial plans and funding requirements of Government. We recommended central agency action to prescribe the requirements of budget documents and a consolidation in the Estimates of capital and operating budget information.

8.88 As a key element in the accountability process, that of refining and interpreting the corporate mandate, the Government proposes to require all Crown corporations to prepare annually a corporate plan which would cover a period of three to five years. This concept was endorsed by the Lambert Commission and this Office fully supports it.

8.89 Under the Government's proposals, corporate plans would be submitted for the approval of the Governor in Council on the recommendation of the appropriate minister, the Minister of Finance and the President of the Treasury Board. Précis information from corporate plans would be tabled in Parliament either separately or as part of the capital budget. Once approved, the plans would provide corporations with the basis for preparing capital and operating budgets for submission to the Government and tabling in Parliament. The form of all corporate plans, and of capital and operating budgets and the subject matter to be contained in them would be subject to Treasury Board approval.

8.90 The corporate plan would include corporate objectives and strategies for the next three to five years, focussing on performance targets, financing sources, new thrusts and significant capital commitments. The Lambert Commission also suggested that a brief version of the corporate plan be included in annual reports.

8.91 Although the Government's proposals would not require Schedule II(b) corporations to submit separate capital budgets for approval and tabling in Parliament, we understand that their major capital commitments and proposed sources of financing would be set out in corporate plans. Since corporate plans would require central agency approval and Parliament would receive summary information from these plans, it appears that appropriate controls would exist over the commitment and borrowing powers of Schedule II(b) corporations.

8.92 We believe that the addition of a corporate plan will significantly improve Crown corporation budget information. Preparation and central agency approval of annual budgets based on the approved corporate plans will also ensure that plans are approved in the context of corporate objectives and longer term perspectives. Treasury Board approval of the form of all budget documents and the subject matter to be contained in them would ensure that they contain the appropriate information.

8.93 We are concerned, however, that the financial information presented to Parliament might still be fragmented. For example, Parliament would receive, from a Schedule I corporation, a précis of the corporate plan, the Estimates presentation, and capital and operating budgets, possibly all at different times. Unless such information is consolidated, there would still be no overall presentation facilitating parliamentary reference and providing a specific basis for establishing accountability for the current year's results.

8.94 It is generally acknowledged that the Estimates should contain all the information Parliament needs to assess plans and vote funds. Our discussions with members of the Government's task force indicate that there are administrative difficulties in attempting to combine the Estimates and capital and operating budgets because of the present timing of the submission and approval of capital and operating budgets. However, the Government's intention is to present consolidated plans to Parliament eventually. We strongly support this course of action since it provides a solid consolidated bench-mark for measuring short-term results.

8.95 **Forms of financing.** Our 1976 Report made three recommendations on financing Crown corporations. First, for corporations dependent on the public purse we recommended that "loan financing derived from external sources should be restricted and where deemed necessary it should be subject to appropriate parliamentary review through budget submissions". This recommendation was made because, under the present budget approval process, external borrowing negates Parliament's ability to limit a corporation's total level of expenditures and activities and creates commitments against the Consolidated Revenue Fund without the specific approval of Parliament.

8.96 We understand that the Government proposes to restrict long-term external loan financing to those corporations engaged in predominantly commercial operations whose cash flow is sufficient to cover the interest payments and repay the principal. Accordingly, corporations which the Government proposes for inclusion in Schedule II will have the power to raise long-term financing from external sources, subject to Governor in Council approval through the capital budget process, and subject to approval of the timing of the borrowing by the Minister of Finance. The Government also proposes to remove from these scheduled corporations the status of Agent of Her Majesty for the purpose of financing. Such status now makes their borrowings a direct charge against the Consolidated Revenue Fund pursuant to Section 45 of the Financial Administration Act. It would also refrain from providing a government guarantee unless specifically approved or authorized by Parliament.

8.97 Corporations to be included in Schedule I would not be permitted to raise long-term debt financing from external sources. Corporations included in Schedules I and II would be authorized to raise short-term external financing (less than 18 months), with such borrowings by the Schedule I corporations requiring the

approval of the Minister of Finance. This Office supports the apparent intent of the Government's proposals to restrict the external borrowings of dependent government-owned corporations. It also appears that the approval process for capital budgets and corporate plans, and the requirement for any guarantee of Crown corporations' borrowing to be specifically approved or authorized by Parliament will provide appropriate control over borrowings by Schedule II(a) and II(b) corporations.

8.98 The Lambert Commission and the Government's current proposals do not appear to address our 1976 recommendations for eliminating, where practicable, equity financing by dependent corporations, and for granting loans only to corporations where feasibility studies have shown that the amounts will be recovered from users or will result in financial claims against non-governmental parties. Recent legislation has converted into equity \$624.9 million in uncollectible loans from Canada to the St. Lawrence Seaway Authority and the Government has proposed similar conversions in other corporations. This development exemplifies the inappropriate use of debt financing in the first instance and the equally inappropriate use of equity financing where an operation lacks commercial viability.

8.99 We are encouraged that the Comptroller General and the Treasury Board Secretariat, in conjunction with the Department of Finance, are developing criteria that would ensure that no loans will be made to Crown corporations unless the corporation can make the interest payments and repay the loan.

Summary

8.100 The intensive study of Crown corporation issues in the last four years by several bodies, including this Office, makes it clear that there are many generally acknowledged weaknesses in their accountability. As the Lambert Commission Report notes, many of these weaknesses were disclosed by the Royal Commission on Government Organization (the Glassco Commission) which reported in 1962. Weaknesses noted by the Glassco Commission, which the Lambert Commission found largely uncorrected, included: unclear descriptions of mandates and responsibilities of corporations and of the powers of ministers and central agencies; lack of control over the creation of subsidiaries; inadequacy of the approach to corporate board and chief executive officer appointments; and abuses of the corporate form and financing methods.

8.101 As we have previously stated, a fundamental principle resulting from the public ownership of Crown corporations is that Parliament, representing "the involuntary shareholder" (the Canadian taxpayer), has a right to exert controls to ensure that these corporations are accountable for the use of public resources and for achieving stated government policy objectives in the most efficient, economical and effective manner possible.

8.102 The studies of the issues have led to a good degree of consensus about changes needed in Crown corporation legislation, rules and practices. In particular, there now appears to be clear agreement on the need for:

- | | | |
|-------------------------------------|---|---|
| Mandate | - | clear statements of objectives and powers of Crown corporations. |
| Direction | - | the use of public directives to Crown corporations. |
| Control | | |
| <i>Creation and Classification:</i> | - | Parliamentary sanction and Governor in Council approval for creating a Crown corporation or a subsidiary of a Crown corporation. |
| | - | A more appropriate categorization and listing of all Crown corporations in the schedules to the legislation. |
| | - | Listing of all wholly-owned subsidiaries with their parents in the schedules to the legislation. |
| <i>Board of Directors:</i> | - | An increased role for boards of directors of Crown corporations and careful selection of directors to ensure that they have the qualifications needed to carry out such a role. |
| | - | Strict limitations on the appointment of public servants as directors. |
| | - | Appointment by all Crown corporations of audit committees made up primarily of outside directors. |
| <i>Plans:</i> | - | The preparation of corporate plans and submission of summary data. |
| | - | Disclosure to Parliament of complete operating budget information for Crown corporations requiring appropriations. |
| <i>Borrowings:</i> | - | The restriction of outside borrowings to Crown corporations engaged primarily in commercial operations and financially able to service the debt. |
| | - | Development of criteria to ensure that government loans are only made to Crown corporations which have the ability to make interest payments and repay the debt. |

- Reporting:*
- Improvement in the accountability reports of Crown corporations and recognition of the need for central agency guidance and approval of the content and format of reports.
 - Preparation of financial statements of Crown corporations in accordance with generally accepted accounting principles.
- Audit:*
- The need for comprehensive auditing.

8.103 Although the various studies have led to consensus in many areas, this Office believes there are several remaining matters which merit further consideration. In particular, we see the need to:

- subject all wholly-owned Crown corporations, regardless of their purpose, to an appropriate regime of direction, control and accountability;
- clearly state criteria governing the scheduling of corporations;
- include in the Government of Canada accounting entity all Crown corporations that either depend on the public purse or carry on activities of a governmental nature;
- eliminate equity financing for Crown corporations that are either engaged in governmental operations or dependent on the public purse; and
- improve the nature and type of information on Crown corporations included in Volumes II and III of the Public Accounts.

8.104 We believe that action needs to be taken immediately by the Government to weigh the arguments of the various concerned parties on unresolved Crown corporation issues. However, we are encouraged by the consensus already reached in many areas and the Government's stated intention to proceed quickly.

PAYROLL COSTS MANAGEMENT

PAYROLL COSTS MANAGEMENT

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PAYROLL COSTS MANAGEMENT

Introduction

9.1 In its Final Report, the Royal Commission on Financial Management and Accountability (Lambert Commission) stated that:

"The management of personnel in all its aspects is as important as, if not more important than, financial management in achieving effective overall management of government activities."

9.2 Effective management of the \$8.6 billion annual payroll of the Public Service is vital for ensuring value for money from the expenditures of the Federal Government. Policies, practices and systems in personnel management significantly affect the size of the Public Service, its efficiency and its operating costs. Even small changes -- a few percentage points -- in the size of the Public Service or its payroll costs can entail additional expenditures or produce savings totalling hundreds of millions of dollars a year.

9.3 This year, we have audited some of the important factors affecting these expenditures, namely, manpower planning, training and development, and human resource information systems. The purpose of our audit was to determine whether there were adequate management controls in these areas.

9.4 In looking at these areas in selected departments and agencies, we did find some evidence of good management. But we also found enough shortcomings to lead us to conclude that existing management controls did not assure the economic acquisition and efficient use of human resources in the Public Service.

General Conclusions

9.5 *Our audit of manpower planning, training and development, and human resource information systems in selected departments and agencies indicated that:*

- *Management generally did not have the means to ensure that human resources were of the right number and type for carrying out government programs efficiently.*
- *Value for money was not being assured from training and development expenditures.*

- *Most line managers did not use the existing human resource information systems. Generally, these systems did not provide needed data economically and efficiently.*

9.6 *In addition, in an exploratory test of the level of efficiency in one major occupational group, we found that the average level of work unit efficiency was 60.8 per cent, well below a minimum acceptable level of 80 per cent. This fact, together with other evidence accumulated in this study of payroll costs management and in the Study of Procedures in Cost Effectiveness reported in 1978, strengthens our opinion that there is significant potential for improving productivity and reducing costs through better management of resources.*

Background

9.7 The Estimates for 1978-79 bring out the importance of payroll costs and the need for their sound management. Total authorized person-years, excluding the military, were about 355,000. Total government budgetary expenditures were estimated at about \$48 billion, including operating expenditures of \$20.5 billion. Of this figure, about 42 per cent or some \$8.6 billion was for wages, salaries and other direct personnel costs -- the largest controllable group of expenditures. In addition to determining direct payroll costs, the number and deployment of public servants also influence the cost of such items as accommodation, equipment and travel.

9.8 Responsibility and accountability for the management of payroll costs in the Public Service is divided among and within central agencies and departments. The broad outlines of this division of responsibility are set out in several key statutes.

9.9 Under the Financial Administration Act, the Treasury Board is empowered to act on all matters relating to general administrative policy and the organization of the Public Service or any part thereof. Among its more specific powers, the Treasury Board may determine the manpower requirements of the Public Service; provide for the allocation and effective utilization of manpower resources; and determine the requirements for, and fix the terms on which training and development may be carried out. Additionally, under the Public Service Staff Relations Act, *R.S.C., c. P-35*, the Treasury Board is designated as the representative of the employer for most of the departments and agencies falling under that Act. As such, the Treasury Board plays a decisive role in negotiating collective agreements in the Public Service.

9.10 The other principal statute affecting payroll costs and their management is the Public Service Employment Act, *R.S.C., c. P-32*. Under this Act, the Public Service Commission is responsible for appointing or providing for the appointment of qualified persons to or from within the Public Service. It is also empowered to operate and assist deputy heads of departments and agencies in the operation of staff development and training programs.

9.11 Both the Treasury Board and the Public Service Commission develop and promulgate systems, policies and procedures to give effect to their responsibilities. They also delegate certain of their authorities to deputy heads, who in turn delegate certain of these authorities to other officials in their departments and agencies. Within this framework and under the enabling legislation of their departments and agencies, deputy heads and other senior managers have the major responsibility for the direct management of the human and associated financial resources entrusted to them. The decisions of these managers largely determine the number, type and deployment of public servants, their utilization and development, and their remuneration.

9.12 During our audit, two studies having an important bearing on the future development of personnel management in the Public Service were taking place. The first was that of the Lambert Commission. The relationship of our findings to the Commission's recommendations is noted in paragraphs 9.21 and 9.22. The second study was that of the Special Committee on the Review of Personnel Management and the Merit Principle. We comment on the Committee's views on training and development in paragraph 9.73. This was the only area examined by both the Committee and our Office.

9.13 The remaining paragraphs of this section describe the scope of our audit. Subsequent sections set out our audit criteria -- the standards of management control that one could reasonably expect to exist in the areas we examined -- and our observations and recommendations. The scope, methodology and conclusions of the efficiency test we conducted, and our resulting recommendations, are reported in a separate section at the end of the Chapter.

Scope of the Audit

9.14 In our 1978 Report (paragraphs 19.146 to 19.183), we summarized the findings of our first audit in the area of payroll costs management in the Department of Transport. In this Report, we present the findings arising out of our audits of payroll costs management in the following nine organizations:

- Canadian International Development Agency;
- Canadian Transport Commission;
- Department of the Environment (not including the former Fisheries and Marine Program);
- Department of National Revenue - Customs and Excise;
- Department of Public Works;
- Department of Supply and Services - Services Administration;
- Department of Supply and Services - Supply Administration;

- Department of Indian Affairs and Northern Development; and
- Department of Consumer and Corporate Affairs.

9.15 In the first six organizations, the audits of payroll costs management were integral parts of our comprehensive audits reported in Chapters 12 to 17. Those Chapters contain detailed findings supporting the overall findings and recommendations reported here. We conducted separate payroll costs audits in the last three organizations listed. These nine organizations, plus the Department of Transport, account for about 76,000 person-years or about 21 per cent of total authorized person-years in 1978-79. Together, they reflect the wide range that exists in government activities and in the size and complexity of departments and agencies. We surveyed an additional 16 departments and agencies by means of a questionnaire on systems and policies in the three areas audited.

9.16 In deciding on the areas of payroll costs management to audit, we took a number of factors into account. The findings of last year's study of payroll costs management were of sufficient significance that we believed it important to gauge the extent to which they were applicable to other departments and agencies. We were aware that central agencies were conducting, or were planning to conduct, studies and audits of certain elements of personnel management. The need to avoid unnecessary duplication and demands on departments and agencies was obvious. We were also aware from our 1978 study that it was difficult to establish generally acceptable audit criteria and to obtain objectively verifiable audit evidence in certain areas of payroll costs management, such as those pertaining to motivation and morale or those that depend on negotiated conditions rather than on management policy. However, there were other issues that we considered auditable. Finally, our own resources were limited and, accordingly, had to be used selectively. We decided to restrict ourselves to the issues defined below.

9.17 *Manpower planning:* systems for ensuring that the appropriate numbers of people are available with the required skills, when and where they are needed.

9.18 *Training and development:* systems for identifying and meeting present and future skill, knowledge and attitudinal requirements to improve job performance and to cope with technological and other changes.

9.19 *Human resource information systems:* systems for providing managers with basic personnel information; that is, profiles of employees and positions in an organization.

9.20 In addition, we decided to conduct a substantive test. Last year, we found significant deficiencies in performance measurement systems, and this year

we found deficiencies in manpower planning. In addition, our 1978 Report cited some instances where efficiency was below an acceptable level. We therefore chose to study one occupational group in which we believed the work was amenable to a more comprehensive assessment of the level of efficiency. We selected the Clerical and Regulatory (CR) group and examined one unit in each of 10 departments.

Accountability for Payroll Costs Management

9.21 Many of the departments studied are aware of the problems that we identified during our audit and are taking steps to solve them. Central agencies are also aware of these problems and are either taking or planning to take steps to deal with them on a government-wide basis. Our recommendations call for reinforcement of these remedial steps and, in particular, for departments to comply with central agency directives and guidelines which, from our point of view, are in themselves generally adequate. However, additional central agency directives and guidelines and stronger enforcement of those that now exist will not be enough to correct the problems. Although such action is necessary, we are concerned that reliance solely on stricter procedures and stronger central monitoring might aggravate the problems unless the fundamental causes are addressed.

9.22 As the Lambert Commission concluded:

"One of the fundamental flaws in the present system is the almost total absence of any means by which departments and agencies are required to account for the efficiency and effectiveness with which they have employed the human and financial resources made available to them, or the attainment of goals set out in their departmental plans."

Lack of effective accountability for payroll costs management in departments and agencies is also implicit in our findings. Therefore, in order for the Government to solve its problems in payroll costs management, as in other areas of resource management, it should look to the larger issues raised by the Lambert Commission and others. These issues include the need to clearly specify objectives, accountability and authority at each level of management, the need for appropriate incentives, and the need for thorough assessment of program results.

Manpower Planning

9.23 **Background.** Every organization needs some form of plan for meeting its human resource requirements. Such a plan should identify the number and types of human resources that the organization currently requires and will need within a designated period to accomplish its objectives. It should be based on a comparison of these requirements with available resources and should specify what the organization must do to reconcile any discrepancies between the two. The amount of detail and formality involved in such a plan would depend largely

on the diversity of the organization's work-force, the ease with which sufficient numbers of qualified persons can be recruited and/or trained, and the nature and scope of its other planning systems.

9.24 Government spending restraints, beginning in 1975 and those currently in effect, further emphasize how important it is for departments and agencies to have appropriate systems for determining what human resources they require and for ensuring that they deploy those resources well.

9.25 In determining the appropriate number and types of human resources necessary to carry out their programs, departments and agencies are guided by directives and guidelines issued by the Treasury Board which cover both specific groups of employees and human resources as a whole. Our study of manpower planning and the findings and recommendations set out below apply to the Public Service in general. They do not deal specifically with manpower planning for particular groups such as Senior Executive Officers, or with programs such as those for ensuring equal opportunities for women, for the employment of native peoples and the handicapped in the Public Service, or for the application of the Official Languages Act.

9.26 In 1975, in its Personnel Management Manual, the Treasury Board established its present policy on roles and responsibilities for human resource planning. According to this policy:

"Departments and agencies have prime responsibility for human resources planning to meet the needs of their own operations and to achieve departmental objectives and goals on a continuing basis. This planning should be part of the normal annual planning cycle and be done within the policies and guidelines of the Treasury Board and the Public Service Commission."

9.27 Since 1975, the Treasury Board has issued several re-drafts of this policy, trying to find a balance between its desire for more specific information and the additional work-load this would create for departments. During 1976 and 1977, the original policy was applied on a trial basis to some programs in 35 departments and agencies. In 1978, 26 departments and agencies voluntarily tried a somewhat less extensive approach to preparing plans for 1979-80.

9.28 The latest statement of Treasury Board policy is in an amendment to the Personnel Management Manual, dated May 1979. The policy now states that "personnel management planning" is a managerial responsibility and that personnel advisors are expected to advise managers on the short- and long-range implications of their decisions. The statement goes on to say that:

"It is the policy of the federal government that departments and agencies determine, at least on an annual basis, the personnel management implications of their over-all objectives and forecast requirements; that they develop personnel management plans which identify the principal personnel actions required to achieve the desired results; and, that they ensure that the planning for human resources parallels Program Forecast and Main Estimates preparation and involves communications between program managers, and financial and personnel advisors."

9.29 Guidelines for implementing the policy state that departments and agencies should:

- "review staff requirements in relation to program objectives and goals, approved targets and strength forecasts for the Main Estimates;
- identify the personnel management implications of staff requirements, (e.g. staffing, training, classification and staff relations);
- establish action plans and activities which endeavour to meet future staff requirements consistent with government human resource program objectives and priorities."

9.30 During 1978-79, departmental adoption of the Treasury Board's policy on personnel management planning was optional. In October 1979, the Treasury Board Secretariat was considering recommending that implementation of the policy be mandatory for the 1980-81 fiscal year. We would support such action and shall continue to review departmental implementation of the policy, whether or not it is made mandatory.

9.31 **Audit criteria.** Based largely upon Treasury Board policy as stated in the Personnel Management Manual, we identified six basic steps in the manpower planning process:

- identify the organization's objectives and program plans;
- determine the current and future requirements for human resources;
- maintain an inventory of existing human resources and forecast their future availability;
- match forecast resources with future requirements;
- develop and implement action plans to ensure that required resources are available; and

- monitor and evaluate the implementation of action plans.

9.32 For this process, we developed a series of audit criteria which we reviewed with central agencies, tested and, in some cases, modified during our audit. The criteria are consistent with the Treasury Board guidelines, but they establish more specific standards against which management practices can be assessed. The audit criteria used are as follows:

9.33 Manpower requirements should be determined from operational objectives and work plans.

- Program objectives should be translated into operational objectives and work plans which should be specific enough to enable management to determine the number of people required to meet them.
- Manpower requirements for the planning period should be determined by assessing the number, type, level and location of human resources needed to carry out work plans and meet operational objectives. This assessment should, where feasible, be based on reasonable work standards.

9.34 The future availability of existing manpower should be forecast.

- An up-to-date, accurate inventory should be maintained of current human resources, their skills and other relevant characteristics.
- The inventory should cover all occupational groups and levels that are significant for manpower planning purposes.
- Turnover statistics, retirement profiles and promotion potential should be analysed to provide forecasts of available manpower.
- A performance appraisal process that facilitates assessment of performance, training and development needs, and promotion potential should be in operation.

9.35 Action plans should be developed to meet manpower requirements.

- Available manpower and skills should be compared with manpower and skill requirements to identify shortages and surpluses.
- Action plans should be prepared to resolve shortages and surpluses through recruiting, training, developing, transferring, promoting and separating employees, and through succession planning.

9.36 Manpower planning should be integrated with other management functions.

- Manpower planning should be integrated with other personnel management planning and with operational and financial planning.
- Program managers should be held responsible for manpower planning.

9.37 Implementation of action plans should be the responsibility of designated personnel and should be monitored.

- Responsibility for executing action plans within agreed time schedules should be assigned and communicated clearly.
- Implementation should be monitored regularly to ensure adherence to time schedules and to identify the need for changes to the plans.

9.38 Audit conclusions. The evidence accumulated in our audits indicated that manpower planning has done little to help ensure due regard for economy and efficiency in the management of payroll costs. We did find some instances of sound planning practices within certain areas of some departments; however, generally speaking, departments did not have systems for ensuring that they were employing the appropriate number of people with the required skills, when and where they were needed. Our audits did not cover all departments. In particular, we did not include the Post Office Department and the Department of National Defence, which, exclusive of military personnel, together account for almost 100,000 person-years, or about 28 per cent of the Public Service. However, our tests were sufficient to support an opinion that the deficiencies reported below are likely government-wide.

9.39 Audit findings. Each year, as part of the expenditure planning process, all departments are required to estimate their person-year requirements for up to four years ahead, those for the first two years being considered as firm. With the exception of this process and Treasury Board requirements for service-wide planning for certain groups, departments have considerable latitude in the scope and nature of their manpower planning. The practices of departments differ. The sophistication of manpower planning varies widely, as does the attention paid to it by line managers.

9.40 In recent years, many departments have attempted to apply Treasury Board policy on personnel management planning only in one part of the department or for a limited time. For example, one department applied the policy in

one of its major branches and tested its application in the remaining branches during 1977-78. It was planning to apply the policy throughout the department the following year. Most departments, however, still did not have an approach to manpower planning that fully reflected the intent of the Treasury Board policy.

9.41 Most departments did not clearly and consistently relate manpower requirements to the achievement of operational objectives and the carrying out of work plans with due regard for efficiency. Operational objectives and work plans, based, for example, on projected demand for services from clients, either did not exist or, where they did exist, were not translated into the right number of people required to carry them out.

9.42 To determine the right number of staff required to carry out a work plan, some estimate is required of the appropriate level of productivity; that is, the amount of work that it would be reasonable to expect the average person to perform in a given length of time. Where feasible -- for example, where staff carry out repetitive, routine tasks -- such estimates should be based on measured work standards. Where this is not feasible, other appropriate standards, such as measures of the amount of work historically performed, should be used. In many cases, although it was reasonable to expect a department to have developed and used measured work standards, these did not exist. Some departments used mainly historical standards where they could have used measured standards. For example, one department had historical standards for store clerks picking items from stock by simply counting the items picked. Measured standards would indicate the number of items per hour that should be picked. The number actually picked could then be compared to the standard to measure performance and estimate future manpower requirements. Other departments used a variety of "rule-of-thumb" standards, such as \$X million of contracts per officer administering contracts, or the number of days required by a personnel officer to classify a new position.

9.43 Only a few departments adequately forecast the future availability of their current human resources by analysing factors such as probable resignations, transfers and retirements. Although most departments had human resource inventories, these were deficient in many ways. Thus, program managers had little confidence in reports based on manpower inventory data and questioned the validity of manpower planning based upon such reports. This observation is discussed further in paragraphs 9.92 to 9.94.

9.44 In those instances in which departments had compared the supply of particular types of employees with demand, there seems to have been little difficulty in identifying gaps and overlaps. Several departments that were primary or sole employers of occupational groups, such as procurement officers or meteorologists, had developed appropriate plans for ensuring a continuing supply of those key resources. One such department, for example, had estimated the number of people who would be required to perform a certain type of work after

important technological changes had occurred. It had forecast the likely availability of such people, taking into account expected staff attrition, and had established means for carrying out required on-the-job training.

9.45 Probably the most serious fault in manpower planning is the failure to identify, routinely, probable future surpluses or shortfalls of human resources throughout a department. We found that departments tended to deal with problems of surpluses or shortfalls by reacting to them as they arose, rather than by developing action plans to meet their expected manpower requirements. For example, some units in several departments, with a large proportion of staff eligible for retirement within the next few years, had not prepared succession plans. In one case, half of 88 middle managers were over fifty years of age. In another case, 18 out of 34 inspectors were to retire within five years.

9.46 One of the basic reasons for the deficiencies noted above is that line managers typically did not consider manpower planning to be an integral part of the management process and therefore as something for which they were accountable. Manpower planning was seldom integrated with financial and operational planning. Also, manpower planning was often perceived as a burdensome chore or as an exercise to satisfy demands from higher management or central agencies. It was generally perceived to be the responsibility of staff advisers in personnel branches rather than a useful tool for managing programs. Similarly, managers did not always feel that action plans were useful, particularly when they suspected the reliability of the data upon which the plans were based. On the other hand, we also observed several instances in which departments were beginning to come to grips with these problems. For example, one department automated the work of 40 positions and deleted 21 positions in the process. Because of advance planning and retraining, the displaced employees were able to be transferred to other necessary duties.

9.47 *Departments and agencies should have manpower planning systems in place that help ensure that they are staffed with the numbers and types of people required for the efficient operation of their programs.*

9.48 *The Treasury Board should clarify management's responsibility for manpower planning and ensure that departments and agencies comply with its policy.*

Training and Development

9.49 **Background.** After employees have been hired and assigned their initial duties, training and development represents one of the most significant investments an organization can make in its human resources. Training and development programs can help employees to acquire the skills and knowledge they need to perform their jobs satisfactorily. Such programs can improve productivity and job satisfaction. They can help to ensure the availability of

competent replacements for incumbents of key positions and can promote the dissemination and application of new technology. They can also be costly, and trainees may have to spend significant amounts of time off the job.

9.50 We estimate that the cost of formal off-the-job training in 1977-78 was about \$170 million for the entire Public Service. For the departments we audited, it was about \$32 million. The corresponding person-days spent on training were reported by the Treasury Board to be about 630,000 for the whole Public Service and 114,000 for the departments we audited. The responsibility for training and development in the Public Service is divided among the Treasury Board, the Public Service Commission, and departments and agencies. The Treasury Board is responsible for determining, promulgating and evaluating the policies within which training and development programs and activities are conducted. The Public Service Commission designs, implements and evaluates training and development programs intended to serve common requirements of departments and agencies. It offers programs at its major training facilities in the National Capital Region and at other facilities across the country. Departments and agencies are responsible for identifying the training and development needs of their employees, for selecting or providing programs to meet those needs and for evaluating such programs.

9.51 The Treasury Board Personnel Management Manual defines "training" as:

"the process of combining instruction and practice to give employees the skill, knowledge and experience necessary to do their present jobs efficiently and effectively".

It defines "development" as:

"the planned growth of the knowledge, skill and experience of employees so that they may assume more responsible and complex duties at some time in the future".

9.52 We reviewed the training and development programs and activities of the departments and agencies listed in paragraph 9.14. We did not examine language training or the training and development programs and activities of the Public Service Commission or the Treasury Board Secretariat, except where they had a direct impact on those of departments and agencies. We reviewed the adequacy of management controls over the training and development process. We did not assess the quality of the content or methods of training.

9.53 **Audit criteria.** We identified five basic steps in the training and development process, based largely on Treasury Board policy. Relevant policy statements include the following excerpts from the Personnel Management Manual:

- "Departments and agencies shall introduce and maintain systems to ensure that all training undertaken at public expense contributes to job effectiveness, and that the value of training is measured against quantitative and qualitative criteria related to work performance."
- "To comply with this policy, departments and agencies shall develop their own systems for identifying employee training needs and to evaluate the results of training."
- "Departments and agencies shall implement an annual reporting system outlining the allocation of resources to employee training and education activities during the previous fiscal year, comparing program achievement against planned objectives, forecasting new needs for future years and identifying areas where Treasury Board policies and Public Service Commission training programs could be improved to meet more effectively the needs of the public service, departments and individuals."

9.54 The five steps of the training and development process are:

- identify needs;
- analyse needs;
- plan programs;
- implement programs; and
- evaluate programs.

9.55 For this process, we developed audit criteria which we tested and, in some cases, modified during our study. The criteria are consistent with Treasury Board policy but establish more specific standards against which management practices can be assessed. We reviewed them with the Treasury Board Secretariat and the Public Service Commission. We used the following criteria:

9.56 **Responsibilities for training and development should be clearly defined and communicated.**

- Specified personnel should be designated to formulate and communicate training policies, standards and criteria; develop training plans, methods and practices; ensure that alternatives are considered; and ensure that results are evaluated.
- Line managers should have the primary responsibility for identifying individual training needs. They should participate in

developing criteria for evaluating training, assist in assessing training alternatives for their staffs, and review and approve training plans.

9.57 Training and development needs should be identified.

- Individual, group and department-wide training needs should be identified in terms of the potential improvement in present and future job performance through improved skills, knowledge and motivation.

9.58 Training and development activities should be planned and their implementation controlled.

- The costs and benefits of meeting each training need should be determined. Training priorities should be established and resources allocated accordingly. Alternative training methods should be identified and evaluated. Functional specialists -- persons with specialized knowledge of the subject area -- should participate in designing training courses. Courses should be conducted and evaluated on a pilot basis before organization-wide implementation.
- Separate training and development budgets should be prepared. All training and development costs should be identified, recorded and controlled against budgets.
- Training facilities should be appropriate to course objectives, well-utilized and economically justified. Instructor and course designer work-load and performance standards should be set and monitored.

9.59 Training and development activities should be evaluated.

- Training undertaken should be evaluated in terms of costs versus benefits from improved job performance. Evaluation should be based on predetermined learning goals and behavioural change objectives.

9.60 Audit conclusions. In our opinion, management could not be assured that value for money was being received from expenditures on training and development in the departments and agencies we examined. We believe this to be due primarily to a lack of appropriate management concern and commitment. Training needs were often not well identified. Frequently, training was undertaken at the request of individual employees, without adequate consideration being given to the needs of the organization by those persons approving the

requests. Often training was poorly planned, its full costs were not captured and it was not evaluated to determine whether it was worth doing.

9.61 Better management of training and development programs could provide the present benefits at a lower level of expenditure. Conversely, departments could realize greater benefits from the current level of expenditure.

9.62 Departments and agencies were not fully complying with the Treasury Board's training and development policies. Furthermore, the Treasury Board had not taken sufficient steps to enforce them.

9.63 **Audit findings.** Most of the departments that we audited did not use a systematic approach to identifying either individual or group training and development needs. Performance appraisal systems, if sound, are one way of identifying training and development needs. In some instances, the performance of more than 50 per cent of the staff had not been assessed in 1978-79. In one case, the proportion assessed ranged from 23 per cent in one region to 90 per cent in another.

9.64 Managers are in the best position to identify the training needs of their staffs and to determine to what extent the department is receiving value for the money spent on training. However, we found that managers were often not sufficiently involved in either concern. Training needs were frequently "identified" by circulating lists of courses available from the department or the Public Service Commission and by relying on the employee to indicate which courses would be most appropriate. Furthermore, some managers and trainees regarded training programs as rewards for good performance rather than as a means of improving job performance. Such views clearly conflict with the intent of Treasury Board policy.

9.65 In comparison to departments whose staffs are less specialized, departments that are the sole or principal employer of a skill group did a better job of identifying training needs. These departments had plans and programs for ensuring a continuing supply of those skills. Examples include the Intern Officer Program and the Materiel Management Training Program run by the Department of Supply and Services, and the programs of the Customs and Excise College. The Intern Officer Program, for example, provides formal classroom training and rotating job assignments to develop product knowledge over a two-year period for newly-recruited science, engineering and commerce graduates.

9.66 Many departments that we audited did not plan their training programs well. They did not thoroughly analyse the training needs that had been identified so that common needs could be recognized and met in a co-ordinated manner. They did not establish the cost of, or sufficiently evaluate alternative ways to meet those needs. Specialized courses had been developed without sufficient

examination of existing alternatives. For example, different parts of one department had developed or bought similar training programs, either because officials were unaware of the duplication or because they believed that "we can do it better". Departments had generally not established overall training priorities, nor had they allocated resources in the most effective way.

9.67 Many courses appeared to have been conducted inefficiently. For example, some training programs that we observed entailed many training days; others seemed to impose relatively light instructor work-loads. In one case where work-load standards existed, the average instructor work-load was 50 person-days a year of classroom instruction. In another case, instructors were giving an average of seven courses a year, each lasting usually from two to three days. In most cases, there were no work-load standards for developing and teaching courses.

9.68 Satisfactory evaluation is not possible unless training needs are adequately analysed and training courses are appropriately selected or designed to meet those needs. In most departments, training and development programs were either not evaluated or were evaluated using methods of dubious quality. For example, line managers often did not evaluate to any significant extent the training received by their staff. When departments were evaluating courses, they frequently concentrated on what trainees thought about the conduct and value of the course rather than on the attainment of predetermined learning and behavioural change objectives, and on performance on the job after training.

9.69 Most departments did not know how much they actually spent each year on training and development. Courses were usually developed without detailed budgets and there was usually no accurate accounting for the actual costs incurred in designing and teaching courses. Certain training expenditures, such as trainee time, travel and accommodation, were not properly segregated. They were "lost" in other categories of departmental accounts and could not readily be identified as training costs.

9.70 The Treasury Board's annual report, Training and Development in the Public Service, seriously understates training expenditures. The report puts 1977-78 training costs at about \$93 million. Our estimate of at least \$170 million is based on actual on-site checks in 10 departments and a questionnaire completed by 16 others. In addition, certain departments made significant unknown expenditures on formal, on-the-job training and development. Neither the Treasury Board's figure nor ours includes expenditures for employee benefits. The difference (\$77 million) between the Treasury Board figure and our estimate can be explained primarily by the fact that the Treasury Board does not obtain complete data from departments on trainees' time and expenses, such as tuition and fees, transportation and living expenses.

9.71 We do not wish to imply that training and development expenditures are too high. However, lack of awareness of the magnitude of those expenditures may result in over-use of training and development. It can also lead to insufficient emphasis on the development of appropriate systems for managing training and development both within individual departments and agencies and throughout the Public Service. Given appropriate cost information, managers would be in a better position to evaluate whether training courses had been worthwhile and to compare alternatives, such as developing their own courses or purchasing outside services.

9.72 The Public Service Commission has an important role in training and development. In 1977-78, public servants attending its courses accounted for about 11 per cent of the 630,000 participant-days spent in training in the Public Service. Managers told us that they considered the Commission's courses to be unduly expensive and therefore made limited use of them. We did not review the Commission's training and development program; however, since departments lack appropriate controls for managing their training activities, they also lack appropriate factual bases for comparing the cost and quality of their courses with those of either the Public Service Commission or any other organization.

9.73 The Special Committee on the Review of Personnel Management and the Merit Principle also examined the operation of training and development programs. The Committee was concerned mainly with what kinds of training were needed and who should be trained rather than, as we were, with economy and efficiency in planning and implementing training programs. However, in stressing the importance of proper identification of training needs, setting training goals and evaluating training, the Committee's Report supports our audit criteria and recommendations.

9.74 *The Treasury Board should strengthen its policies on training and development by setting out minimum acceptable requirements with respect to:*

- *the identification and analysis of needs;*
- *the selection, design and implementation of programs;*
- *the recording and reporting of costs;*
- *the evaluation of programs; and*
- *accountability for these matters.*

9.75 *Departments should improve the planning and implementation of their training and development programs by:*

- *ensuring that line managers identify training and development needs;*

- *ensuring that the expected costs and benefits of alternative ways of satisfying training and development needs are assessed;*
- *instituting appropriate systems for recording, reporting and controlling all training and development costs;*
- *establishing procedures for evaluating and reporting the effectiveness of training and development programs; and*
- *establishing clear accountability for these actions.*

Human Resource Information Systems

9.76 Background. Information from human resource information systems helps management to make decisions on manpower planning, training and development and other components of payroll costs management. Such decisions depend largely on the content, accuracy and timeliness of information on the characteristics of the organization's human resources. The cost of collecting and analysing such information varies; it depends on the type and amount of information required, how accurate it needs to be, how frequently it needs to be updated and where it comes from. Human resource information systems can be expensive and complicated; yet, they may still not provide useful information for management. Therefore, management controls over the development, operation and maintenance of such systems are important in promoting economy and efficiency in the management of payroll costs.

9.77 Human resource information systems contain facts about the employees and positions within organizations. Among the facts which may be recorded are the classifications and salaries of employees, language requirements and proficiency, work history, performance and benefits. These facts are stored in some medium that permits cross-referencing, analysis and reporting of the information. The content of reports can range from the number and classification of employees in certain units or locations to analyses of reasons for turnover rates to projections of staff retirements. Managers may use these reports, for example, to monitor their use of manpower and to plan the acquisition and deployment of staff. Personnel administrators may also use the reports for such activities as monitoring the changing classification profiles of positions.

9.78 Central agencies and departments operate human resource information systems. We estimated their operating costs to be between \$20 million and \$25 million a year. The Treasury Board and the Public Service Commission use a number of computerized systems; some cover all of the Public Service, some only parts of it. Most departments operate one or more of their own systems, either manual or computerized, and provide the data input to the central agency systems. The Treasury Board's system -- the Personnel Management Information System (PMIS) -- comprises six sub-systems, of which the major ones are the Incumbent System, the Official Languages Information System (OLIS) and the Attendance, Leave, Overtime and Shiftwork System (ALOSS). Data Stream is the

major system operated by the Public Service Commission. The central agencies operate these systems mostly for their own use, but make information from them available to departments and agencies.

9.79 The Treasury Board is also responsible for developing, revising and interpreting policies and guidelines for planning, procuring, operating and evaluating electronic data processing (EDP) systems. The Treasury Board is also responsible for reviewing and recommending action on departmental plans and related submissions. To date, however, the Treasury Board has not issued any policies that specifically govern the activities of departments and agencies in developing their own internal human resource information systems.

9.80 In our audit, we primarily examined the computer-based human resource information systems operated by departments. We did not examine the central agency systems, but we did observe some of the effects that they have on departmental systems.

9.81 **Audit criteria.** Human resource information systems should be designed and operated to meet the information needs of their users economically and efficiently. This general concept was the basis for the specific audit criteria which we developed and reviewed with central agencies and, in some cases, modified during our study. We used the following criteria.

9.82 **Systems should be designed and operated to meet the needs of the users of the information.**

- Users should participate fully in the design of systems.
- Information produced should be timely, up-to-date, complete, accurate, and relevant to the users' human resource decision-making authority. Standards for the accuracy, completeness and timeliness of information should be established with users.
- Users should be able to rely on the systems to produce the information they need.
- Information processes should recognize the confidential nature of the data involved.
- Instructions and procedures should be documented and communicated to operators and users.

9.83 Systems should be designed and operated in an economical and efficient manner.

- Specific individuals should be responsible for co-ordinating and assessing information requests and solving problems encountered in systems operations.
- Production of essentially the same information by different systems should be avoided.
- The development of systems should include the consideration of alternatives, full costing of alternatives, proper budgeting and adequate project control.
- Operating costs should be budgeted and controlled properly.

9.84 Human resource information systems should comply with central agency regulations, guidelines and directives.

9.85 Audit conclusions. In our opinion, departments and agencies have not given due regard to economy and efficiency in the operation of their human resource information systems. We observed many deficiencies in the management of departmental human resource information systems. Agreed standards of accuracy, completeness and timeliness were lacking. Data were incomplete and inaccurate. Understanding of the capabilities of systems was limited and the responsibilities for their management were not well defined. As a result, users frequently developed their own unofficial, informal systems.

9.86 Many human resource information systems, both computer-based and manual, exist in the Public Service at local, departmental and central agency levels. Although some systems worked well individually, we found considerable overlap and duplication at the departmental level.

9.87 Central agencies and the departments that we examined were aware of these problems and have tried to rectify them. However, the problems persist.

9.88 Audit findings. Every department we examined had one or more of its own human resource information systems. In addition, departments are required to provide data to the central agency systems. There is a great deal of commonality in information processed, since most management information needs concerning employees are likely to be similar. Yet, we found that the systems varied greatly among departments in design, report format and degree of sophistication. For example, new information can be added to some systems in a matter of minutes. Others are updated weekly or monthly. Similarly, information can be accessed instantaneously in some sophisticated systems, but only through periodic reports in others.

9.89 Despite the similarity of most departments' personnel information needs, system development and operating costs varied widely. We assessed the development costs of two systems established in 1979 to meet the needs of two departments of comparable size. One system cost \$86,000 to develop; the other cost \$280,000. We also found that operating costs of computerized human resource information systems ranged from less than \$5 to about \$50 per person-year. Without specific guidelines on the development and operation of human resource information systems, departments can neither assess the reasonableness of their particular expenditures nor establish reasonable benchmarks for information system planning and design.

9.90 We found that departmental and central systems suffered from excessive duplication. Departments design systems to serve their own needs and, for the most part, these are not intended to be integrated with or complementary to government-wide systems. Most departments entered the same data into their own systems that they provided for entry into the centrally operated systems. Moreover, most departments audited did not capture data directly from central agency documents. Instead, they transcribed the data to a departmental form for input to a departmental system. This practice has resulted in unnecessary duplication of clerical effort as well as duplication in the processing of similar information by two systems.

9.91 Many departments did not conduct feasibility studies before developing new systems. If they had, overlap might have been prevented. In three departments in which recent feasibility studies had been undertaken, we found these studies to be incomplete. None had adequately examined alternatives or estimated operating costs before proceeding to develop a new system.

9.92 Despite the existence of many systems, most managers told us that they were not receiving the information they needed to manage their staffs properly. Many were maintaining their own manual or computerized systems because they lacked confidence in larger departmental systems. The larger, official systems were viewed as inadequate in design or operation, or both.

9.93 Such inadequacies were many and varied. Most of them resulted from users not being sufficiently involved in the development of systems and from not specifying their needs. Defined and agreed standards of accuracy, completeness and timeliness were often lacking. For example, there was usually no standard for the length of time between the appointment of a new staff member and the recording of that information. In one case, information on new staff was not available three months after the appointments were made. Managers either stated that information was inaccurate because computer reports did not reflect recent changes, or complained that they received reports too late. In one case, for example, a list of 1,445 employees showed 72 of them in the wrong position in the organization. Failure to update data bases resulted in reports that were inaccurate and incomplete. This failure occurred for several reasons. To illustrate, departments were required to provide information to central systems

and received little or no feedback; therefore, they were not always concerned with ensuring the integrity of the data they provided. Further, in one organization, headquarters had imposed systems on regional offices which did not need the information. Accordingly, these offices attached a low priority to providing the necessary data.

9.94 Managers typically had a limited understanding of the capabilities of their own department's systems. Systems were developed and expanded without adequate communications and instructions to either the users or the clerical staff who handle the data. Documentation was frequently incomplete, not understood or not used. A number of departments did not have user manuals. As a result, suppliers of information failed to understand what was expected of them. Users did not know what output they could expect from the systems or how to obtain it. In one situation, a regional office had been told how to provide data to a headquarters system but not how to obtain information from it. The office stopped providing the data.

9.95 Finally, a number of departments lacked clear administrative procedures for maintaining and operating systems. They had no single focus of responsibility for promulgating policies and directives governing those procedures; that is, no clear responsibility existed for the authorization, development, implementation, maintenance, operation and documentation of human resource information systems.

9.96 The Treasury Board Secretariat, the Public Service Commission and the Department of Supply and Services are aware of these problems and are currently studying alternative ways to solve them. From these studies, policies and guidelines governing departmental and central agency responsibilities for system development and operation are being developed.

9.97 *The directives and guidelines being developed by central agencies should foster the development and operation of human resource information systems that:*

- *meet the human resource information needs of departmental and central agency management economically and efficiently;*
- *eliminate unnecessary duplication between departmental and central agency systems; and*
- *promote economy and efficiency in the management of payroll costs.*

9.98 *Meanwhile, the Treasury Board should ensure that departments and agencies comply with existing directives and guidelines on electronic data processing (Administrative Policy Manual, Ch. 440), particularly with respect to*

feasibility studies and adequate examination of alternative human resource information systems.

A Test of Efficiency

9.99 Introduction. Our findings concerning performance measurement were reported in Chapter 4 of the 1978 Report. At that time, our examination of 16 performance measurement systems covering about 100,000 person-years across 12 departments revealed only two systems that, in our view, were satisfactory. This led us to suspect that the level of efficiency in those departments might be lower than one could reasonably expect. This suspicion was strengthened by our findings with respect to manpower planning systems reported earlier in this Chapter, since inadequate manpower planning can result in under- or over-staffing, and therefore influence efficiency.

9.100 We therefore decided to conduct an exploratory test of the level of efficiency in a sector of public service work which lends itself to work measurement. In conducting our test, we were aware that a number of major factors combine to determine the actual efficiency achieved. These factors include the commitment of managers at all levels to the achievement of high efficiency, their abilities as managers of people and tasks, employee ability and motivation, the organization of the work itself, and environmental constraints in the workplace, such as norms of the organization which affect both managers and subordinates and how they undertake their work.

9.101 We decided to assess actual efficiency through a test in a major occupational group. We selected the Clerical and Regulatory occupational group (CR), levels 1 to 4, because:

- it is a large group, numbering almost 50,000 employees across the Public Service;
- work typically performed in jobs at these four levels is amenable to the application of work standards and, therefore, to the measurement of efficiency; and
- although the purpose, nature and context of each job may differ, we considered that the basic elements of the jobs are similar.

9.102 Methodology. The distribution and organization of CR 1-4 personnel in government departments posed certain difficulties in selecting units to study. The number of CRs 1-4, the sizes of the work units into which they are organized, and the nature of the work they perform differ within and among departments. In addition to these variables that may affect efficiency, we had to recognize that there are always inherent problems of measurement.

9.103 A study that would take all these factors into account and which would be of sufficient scope to measure the efficiency of the entire occupational group throughout the Government was not warranted for our purposes. Accordingly, we decided to estimate the efficiency of one unit within each of 10 different departments. In selecting departments, we emphasized the larger employers of the CR 1-4 group. The combined total of the CRs 1-4 in these departments is 28,500 or about 60 per cent of the CR 1-4 group across Government.

9.104 We felt that the results of the study would be more credible to managers in the various departments if they were to participate in selecting the specific units, rather than if we were to identify the units randomly. The factors taken into account in this selection were:

- the desirability of a large work unit;
- the degree of stability of the work environment with respect to systems or organization during the period studied;
- the similarity of the work unit to other units in the department; and
- the existence of production data.

The 10 units selected performed a variety of routine clerical tasks, such as payroll administration, filing, forms processing and analysis. They ranged in size from 6 to 40 employees, and averaged 16.

9.105 We collected information from the departments' own systems on the amount of output produced by each unit over a period varying from 4 to 12 months and on the amount of employee time spent in producing that output. In four of the departments, the study data covered a full calendar year. In the remaining departments, we used all the data available, the period varying from 4 to 9 months and averaging 6 months. Throughout, we attempted to reduce distortions in results due to fluctuations in workload that occurred during the study period.

9.106 We developed a work standard for each type of output. For most standards, we used the Methods-Time-Measurement (MTM) technique as it is applied to clerical work (MTM-C). Other methods as well as MTM-C can be used in determining efficiency, and in some non-clerical areas these methods would be more appropriate. However, the characteristics of work performed by employees in the CR group are generally amenable to the MTM-C technique and it provided the rigour required of an audit test. Where it was not possible to use MTM-C, we used work sampling. We calculated the amount of time that should have been spent in producing the output, according to the work standards that we had developed. We also made allowances for time spent on unmeasured work and other factors such as training, personal needs and unavoidable delay. We then determined the actual working time spent on measured work to produce the output. From this information, we computed the efficiency of each work unit.

9.107 Whenever it was necessary to exercise judgment which could affect the results, we made an interpretation that would tend to overstate the level of efficiency. Therefore, such bias as existed in the assessment would be in favour of stating higher levels of efficiency than actually existed. Furthermore, we did not examine whether the tasks that the work groups performed were necessary, or whether improvements in work methods could have resulted in increased efficiency.

9.108 **Audit criteria.** For this test of efficiency, we applied a criterion which the Office developed as part of its 1976-78 Study of Procedures in Cost Effectiveness. The 1978 Report (paragraph 4.15) states:

"Performance should be adequate in comparison to standard.

- The standard or base for comparison should be adequate. When appropriate to do so, it should be established by generally acceptable work measurement techniques."
- "Actual performance levels should be reasonable in comparison with the related standard or base. When standards have been established by Work Measurement, the target for an individual should be 100% of standard. Over a period of time a minimum acceptable group performance should be 80%."

9.109 The criterion of 80 per cent has been reviewed with, and endorsed by, our senior advisors from government, academic and business sectors. The 100 per cent performance level is frequently achieved in a manufacturing environment. In offices in the private sector, 90 per cent is generally achieved.

9.110 To confirm the validity of these levels, we conducted a survey of major organizations that make use of work standards in a clerical environment. The study included private sector organizations in both Canada and the United States. We surveyed 87 companies, 70 of which were Canadian. They included banks, trust companies, insurance companies, finance and loan companies, retail organizations, manufacturers and service companies. The service companies were made up of utilities and transportation operations. The size of the clerical staffs employed varied from under 500 to over 20,000. Overall, the average expected performance was 89.8 per cent. The average performance achieved was 87.7 per cent.

9.111 We suggest that the criterion of 80 per cent performance should be considered the minimum acceptable level of efficiency in Government. This level, however, is not necessarily an ultimate target for Government. Clearly, Government has the responsibility for stating its target performance, which may be well in excess of 80 per cent. We consider performance below 80 per cent to

be evidence of a lack of due regard for efficiency, and thus a matter that should be brought to the attention of Parliament.

9.112 Audit conclusion. Our exploratory test in a major occupational group indicated that measured efficiency was well below the minimum acceptable level. Substantial savings are possible if ways can be found to increase efficiency to this minimum acceptable level.

9.113 Audit findings. Tabulated below in descending order are the measured efficiencies of the selected work units in the 10 departments.

<u>Percentage</u>	
65.8	59.3
63.3	59.1
63.1	59.0
61.4	58.9
59.6	58.4

9.114 Given the circumstances of the study, these results are remarkably alike. From one workplace to another, under the diverse data collection procedures the audit teams had to use, efficiency appears consistent.

9.115 It is likely that these results have some degree of bias. This is because of the method of sampling described in paragraph 9.105 and the possibility of bias mentioned in paragraph 9.107. It is not possible to gauge objectively the magnitude of these biases; however, we believe that they would tend to overstate the actual level of efficiency.

9.116 The average of the results is an efficiency of 60.8 per cent. Assuming that the units we examined are performing similar work in environments similar to those units that we did not examine, this average is a reasonable estimate of the actual level of efficiency in all the CR 1-4 units in this group of 10 departments. The average is well below the minimum acceptable level of 80 per cent. If the level of efficiency could be raised to 80 per cent, then the shortfall demonstrated by this test is equivalent to a potential saving in resources of 24 per cent for the same output or to a potential increase in output of 32 per cent from the same resources.

9.117 We must emphasize that these estimates show only the potential for improvement in efficiency in this occupational group in these departments.

They do not imply that efficiency can be increased simply by reducing staff, or that production can be increased simply by introducing additional work. Rather, attention must be paid to factors such as those referred to in paragraph 9.100. Unless the major determinants of performance are dealt with in a serious and well planned program to increase efficiency, levels of efficiency such as those reported above can be expected.

9.118 The following recommendations should be read in conjunction with our recommendations in the 1978 Report with respect to performance measurement systems (paragraphs 4.25 and 4.26) and our recommendations on manpower planning (paragraphs 9.47 and 9.48) in this Chapter.

9.119 *Departments and agencies should identify those operations which lend themselves to the various techniques of work measurement and should determine the potential savings from improvement in efficiency.*

9.120 *Where improvement in efficiency is feasible and the benefits would exceed the costs, departments should introduce programs to increase efficiency.*

9.121 *Where departments can introduce efficiency-improvement programs, actual efficiency levels should be measured periodically and reported to management. Departmental internal audit should monitor efficiency and make recommendations for improvement.*

9.122 *Departments and agencies should provide the Office of the Comptroller General with periodic performance reports indicating what areas of their operations are carrying out measurable work, what work is being measured, and what levels of efficiency are being achieved.*

MANAGEMENT OF TELECOMMUNICATIONS

MANAGEMENT OF TELECOMMUNICATIONS

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MANAGEMENT OF TELECOMMUNICATIONS

Introduction

10.1 The purpose of our study of telecommunications in Government was to determine whether departments and agencies were acquiring and administering their telecommunications with due regard for economy and efficiency, in accordance with the policies, directives and guidelines set out in the Treasury Board Guide on Telecommunications Administration, and whether the Department of Communications was carrying out its legislative responsibility for planning and co-ordinating telecommunications services on behalf of Government. Telecommunications in Government includes, among other services, telephone, teleprinter, data transmission and facsimile transmission.

10.2 The Department of Communications Act, *R.S.C. 1970, c. C-24, s.5(d)*, states that the Minister shall "plan and co-ordinate telecommunication services for departments, branches and agencies of the Government of Canada". Although its legislation was initially passed in 1969, the Department of Communications in 1979 is still at the stage of determining procedures for collecting information to plan. One major reason why the Department of Communications has not carried out its mandate is that it has had no authority to extract information from departments and agencies about their plans and their use of telecommunications. It was not until 1977 that the Treasury Board issued its Guide on Telecommunications Administration which required departments to do their own internal planning of telecommunications, report costs and generally provide the information necessary for the Treasury Board Secretariat, the Department of Communications, and departments and agencies to do their jobs. We found a general lack of compliance with the directives, even though they are stated to be mandatory.

10.3 Generally, we found that departments had not gathered the information on their own telecommunications needs and utilization required for proper planning and control. For these reasons, we have concluded that telecommunications are not being managed with due regard for economy and efficiency.

10.4 Known annual expenditures on telecommunications are expected to reach \$417 million per year by 1981-82. Control over telecommunications is particularly significant in view of the increasing integration of communications technology with computer technology. This combination leads to major risks of inefficiency if management control systems for telecommunications are not promptly brought up to a satisfactory level.

Audit Scope and Criteria

10.5 Audit scope. We examined the financial and management controls over telecommunications in seven Departments:

Agriculture;

Communications;

Employment and Immigration, and Canada Employment and Immigration Commission;

Fisheries and Environment;

Public Works;

Supply and Services; and

Transport.

We conducted our study in the National Capital Region headquarters of these departments, where responsibility for direction and control is concentrated and where major telecommunications expenditures are made.

10.6 Audit criteria. Our audit was based on a combination of the Government's own statutory requirements and standards and the controls that we thought were reasonable under the circumstances. These were:

- The Department of Communications should carry out its legislative responsibility for planning and co-ordinating telecommunications services as set out in the Department of Communications Act.
- Departments and agencies should comply with the directives set out in the Treasury Board Guide on Telecommunications Administration.
- Adequate control should be exercised over the use and cost of telecommunications by:
 - adequately identifying costs;
 - controlling the use of telephone call access codes;
 - controlling the use of commercial long distance calls; and
 - controlling contracts entered into by departments for telecommunications services.

10.7 Detailed reports of our findings were sent to each department studied. Our major observations and recommendations follow.

Summary of Audit Observations

10.8 In the seven departments studied, our examination showed a general lack of compliance with the Guide on Telecommunications Administration.

10.9 The Guide requires departments to ensure that the cost of telecommunications is accounted for and made visible and that senior managers are provided with the information necessary to enable them to make sound decisions in acquiring and administering telecommunications services. We found that departments had not identified the type of information required by management to monitor and evaluate telecommunications services and facilities to ensure that they were acquired and used economically and efficiently.

10.10 Departments had not:

- established action plans and control systems to implement the Treasury Board policies and directives;
- developed short- and long-term plans to identify and analyse telecommunications requirements in terms of resources and costs;
- developed cost accounting systems for telecommunications;
- adequately co-ordinated the planning, utilization and evaluation of telecommunications services; or
- gathered the information needed to monitor telecommunications services.

10.11 We found that the Department of Communications had not carried out its legislative responsibility to plan and co-ordinate telecommunications services for departments and agencies of the Government of Canada. The Department is now taking steps to remedy this situation.

10.12 In our opinion, the Government's knowledge of the extent, use and cost of telecommunications is inadequate. We concluded that money was being spent on telecommunications without due regard for economy and efficiency.

Audit Findings and Recommendations

10.13 **Legislative mandate of the Department of Communications.** Under the legislation which created it in 1969, the Department of Communications, in

addition to its other responsibilities, shall "plan and coordinate telecommunication services for departments, branches and agencies of the Government of Canada". It was not until August 1978 that the Department established a Government Telecommunications Planning Group to develop procedures to gather information necessary to formulate government-wide plans. The Department of Communications has still not developed objectives and an operational plan to carry out this legislative responsibility.

10.14 The Department of Communications is also charged by Treasury Board with the responsibility of preparing for presentation to the Board an Annual Review of Telecommunications in the Government of Canada. The first Review was produced for the fiscal year 1976-77. Information in that Review and the subsequent 1977-78 Review was based on data contained in departmental annual reports which are also produced for the Treasury Board. Although this information enables the Department to determine government-wide expenditure trends and accumulate data on systems, its usefulness is limited by the lack of a uniform interpretation and a government-wide expense classification system for telecommunications; by departments' lack of complete information on systems utilization and related costs; and by the absence of information on departments' short- and long-term telecommunications plans. Several departments omitted information from their annual telecommunications reports, thereby substantially understating the costs of their telecommunications services and facilities.

10.15 It is difficult, therefore, to evaluate whether there is duplication of services within departments and across Government. Also, the exclusion of certain cost data in some departmental reports means that expenditure trends and related analyses reported in the Annual Review of Telecommunications in the Government of Canada are incomplete.

10.16 *The Department of Communications should develop objectives and an operational plan to implement its mandate to plan and co-ordinate telecommunications for Government. The plan should include the means to identify and recommend to Treasury Board networks and systems used in Government where savings can be achieved through consolidation or integration.*

10.17 In response, the Department of Communications informs us that they have prepared a document on the "Development of Telecommunications Plans for the Government of Canada" and proposed "Instructions for Annual Report on Departmental Telecommunications Plans". These documents have been submitted to the Telecommunications Advisory Committee (TAC) for its consideration and endorsement, and will subsequently be submitted to the Treasury Board for approval. The Department of Communications is also taking steps to develop objectives and an operational plan that more directly reflect the Auditor General's recommendations.

10.18 **Departmental compliance with Treasury Board directives and guidelines.** The Treasury Board Guide on Telecommunications Administration was released to

departments in January 1977. It provides policy statements and objectives within which departments are to plan and control their telecommunications resources. In particular, it contains directives and guidelines on planning, choice of services and procurement, service standards, financial administration, security, and evaluation of telecommunications services and facilities. Chapter 430 of the Treasury Board Administrative Policy Manual, issued in December 1978, requires departments to assemble basic information for monitoring the management of telecommunications.

10.19 We found a general lack of compliance with the requirements of the Guide.

10.20 *Departments should comply with the requirements of the Treasury Board Guide on Telecommunications Administration. As part of its reporting on the extent of compliance with central agency directions, internal audit in each department should assess and report to the deputy head the extent of compliance with the Guide.*

10.21 *Treasury Board evaluation.* In 1978, the Treasury Board evaluated implementation of the Guide on Telecommunications Administration in 27 departments. It identified factors affecting compliance and made recommendations to improve management and control of telecommunications resources. The Report on the Evaluation of the Guide on Telecommunications Administration, however, did not indicate the extent to which departments were actually complying with the policies and directives set out in the Guide or explain satisfactorily the reasons for non-compliance. An assessment of this kind is essential to ensure implementation of and compliance with Treasury Board directives concerning telecommunications administration.

10.22 *As part of its evaluation procedures, the Treasury Board should monitor and report on departmental adherence to the Guide on Telecommunications Administration.*

10.23 *Implementation.* We found that none of the departments studied had assessed the resource and organizational implications of implementing the Treasury Board Guide on Telecommunications Administration and had developed appropriate action plans.

10.24 *Departments should assess the impact on their operations of the Treasury Board directives and guidelines and develop appropriate action plans to implement the Guide on Telecommunications Administration.*

10.25 *Planning.* Departments had not identified their telecommunications resource requirements to support their programs by developing short- and long-

term plans with stated objectives. For example, telecommunications costs for leased services and equipment were budgeted individually by managers throughout the departments and were not brought together for review in an explicit short- and long-term telecommunications plan.

10.26 *Co-ordinating.* Departmental telecommunications co-ordinators, appointed to co-ordinate planning, acquisition, utilization and evaluation of telecommunications, were not given clearly-defined responsibilities and authorities to carry out their roles.

10.27 *Reporting.* Appropriate levels of internal reporting and the supporting cost accounting systems had not been established. As a result, there was poor knowledge and visibility of costs. This inhibited departments from determining how effective they were in managing and controlling their telecommunications resources. For example, there were no comprehensive departmental reports to compare planned to actual costs on a department-wide basis. In addition, managers were not provided with useful unit-cost information. Telecommunications costs in internal reports were often presented as lump sums or grouped with other categories of expense. Annual reports produced for the Treasury Board were often inadequate or incomplete because information on systems and costs could not be readily verified or gathered from departmental records.

10.28 *Monitoring and evaluating.* Information needed by managers to monitor and evaluate the acquisition and use of telecommunications services and facilities to ensure efficiency and cost-effectiveness had not been identified. There was an absence of performance measures or indicators, user profiles, exception reporting and planning.

10.29 *Controlling telephone services.* In 1977-78, the Department of Communications reported that approximately 135,000 telephone sets were used in Government, of which 83,000 were located in the National Capital Region. This does not include telephones that are serviced by switchboard (PBX) and data phones used in electronic data processing. In this period, the telephone component of telecommunications costs for Government was reported at \$93 million.

10.30 In 1978-79, there were 18,000 telephone sets in the seven departments studied, with a ratio of 8,000 main lines to 10,000 extensions used by 20,500 people in the National Capital Region. Based on our audit of the seven departments, we estimate the average annual cost to Government per set to be at least \$465. Our analysis showed the major cost components to be:

Telephone Costs

<u>Supplier</u>	<u>1978-79</u>	
	<u>Cost</u>	<u>Cost per set</u>
Commercial:		
Equipment rentals	\$4,313,000	\$240
Installation charges	353,000	20
Commercial long distance	<u>329,000</u>	<u>18</u>
	\$4,995,000	\$278
Government Telecommunications		
Agency (long distance network charges)	<u>3,370,000</u>	<u>187</u>
	<u>\$8,365,000</u>	<u>\$465</u>

10.31 Departments and agencies have the option of obtaining their long distance and data services either from the Department of Communications Government Telecommunications Agency (GTA) or directly from common carriers. The Guide on Telecommunications Administration stresses the importance of making the proper choice of telecommunications services by the deliberate consideration of available alternatives in relation to departmental program requirements and economic considerations. In the departments audited, we found that long distance telephone facilities were not assessed to determine whether the services provided were the most economical. Long distance telephone facilities were obtained from GTA without consideration of alternative sources.

10.32 The Telecommunications Administrative Practices for Local Telephone Services, which governs the acquisition of telephone equipment and establishes a cost standard, was issued by the Treasury Board in February 1978, but has not yet been fully implemented. Specifically in the National Capital Region, where telephone equipment rental costs for the 18,000 sets amounted to \$4.3 million, the departments examined exceeded the cost standard for equipment rentals by an estimated \$440,000.

10.33 Financial control processes related to the acquisition of telephone services were not sufficiently documented. In addition, verification procedures were deficient. For example, telephone requisitions for installation services were not always verified against invoices, detail was not requested for GTA billings, and commercial long distance calls were not systematically checked.

10.34 *Security.* Departments did not have up-to-date telecommunications security evaluation reports, nor were department-wide studies undertaken to determine telecommunications security risks.

10.35 *Departments and agencies should develop management and financial controls to ensure that telecommunications services, equipment and personnel are planned and controlled in accordance with the policies, directives and guidelines set out by the Treasury Board.*

10.36 *Service standards.* The Guide on Telecommunications Administration requires the Department of Communications to develop service standards for the shared and customized telephone and data services which it provides to departments and agencies. Except for drafting the Telecommunications Administrative Practices issued by the Treasury Board, which defines acceptable levels of service and specifies a minimum service level at a given cost for local telephone services and listings in directories, our audit revealed that the Department of Communications had not developed service standards for the telecommunications services provided to departments and agencies by the Government Telecommunications Agency.

10.37 *The Department of Communications should establish and submit for Treasury Board approval service standards that will improve the cost effectiveness of telecommunications.*

10.38 In response, the Department of Communications informs us that consistent with the Guide on Telecommunications Administration, they have made provision to develop service standards in consultation with the Telecommunications Advisory Committee (TAC), for the approval of the Treasury Board.

10.39 *Cost allocation and pricing principles.* We found that GTA's cost allocation and pricing principles and procedures for recovering costs from departments had not been submitted by the Department of Communications to the Treasury Board for approval.

10.40 The costs of shared services were not allocated to departments on an actual usage basis. At the present time, the Government Telecommunications Agency allocates shared telephone service costs on negotiated or sampled percentage-of-use factors based on traffic data. These procedures are not only unreliable but are complex, fragmentary and often inconsistent, resulting in charges to departments that GTA cannot explain. As a result, departmental managers have not been provided with cost information and usage data that encourage them to pursue economies by considering available options. For their part, departments have been unable to determine to their satisfaction if GTA charges are reasonable and fairly distributed given the services received.

10.41 GTA has recognized the need for improving these procedures and is working with the Government's interdepartmental Telecommunications Advisory Committee to develop and establish acceptable cost allocation and pricing principles for submission to Treasury Board in the fall of 1979.

10.42 Identifying costs. We found that accounting systems used by departments to classify and identify telecommunications costs were not consistent across departments or throughout Government and were not structured to produce the cost information needed to plan, manage and control resources and costs.

10.43 During the past four years, the Treasury Board Secretariat has taken steps to revise the classification and coding system. The Treasury Board Secretariat reported that work is now under way in co-operation with the Office of the Comptroller General to revise the classification of financial transactions to ensure that costs of telecommunications are made visible and are uniformly reported throughout Government.

10.44 Controlling the use of intercity network telephone call access codes. Authorized public servants obtain GTA telephone call access codes through their departments. They are similar to telephone credit cards and enable callers on telephones outside the government network to phone into the government network. Details of the calls made are not automatically supplied to departments but can be obtained at a cost on request from GTA. Because of the difficulty and cost of tracing and authenticating calls under the present system, the departments examined had not requested details from GTA.

10.45 The Government Telecommunications Agency estimated in 1979 that there were 4,975 telephone call access codes in use. The cost charged to departments in 1978-79 from traffic charged to the codes was:

	<u>Call Codes</u>	<u>Amount</u>
National Capital Region	1,475	\$5,121,275
Regions (estimated number of codes in use)	<u>3,500</u>	<u>2,252,707</u>
	<u>4,975</u>	<u>\$7,373,982</u>

10.46 In 1979, GTA issued to departments and agencies 17,000 telephone information cards which provide instructions on how the call codes are to be used. The issue of these cards and the authorization of call codes is the responsibility of departments. The actual number of persons making use of the call codes is not known. Furthermore, the number of authorized users is not known and thus the cost per authorized user could not be developed.

10.47 We found that controls over the use of the call codes in the departments examined were inadequate.

10.48 In an attempt to strengthen controls over the use of telephone call access codes, GTA withdrew all existing codes effective July 16, 1979, and replaced them with four new code classes with built-in safeguards to re-establish the confidentiality of the telephone call code system. While GTA recognized that the new code system does not preclude abuse, the Agency stated that it would review the adequacy of the system in the fall of 1979.

10.49 *The Government Telecommunications Agency should conduct a cost feasibility study on the type of administrative controls that could be introduced to assist departments and agencies to control the use of telephone call access codes.*

10.50 In response, the Department of Communications informs us that the Government Telecommunications Agency will undertake a cost feasibility study consistent with the Auditor General's recommendations.

10.51 **Controlling the use of commercial long distance calls.** In 1977-78, the cost to Government of long distance calls or direct distance dialing through commercial telephone systems amounted to approximately \$17 million, an increase of \$3 million over the previous year. Some of these calls were placed by public servants, others were accepted from the public in accordance with certain government policies. As an alternative to accepting commercial calls from the public, departments have leased special circuits for public use.

10.52 At the present time, the extent of the cost of public servants' calls and the purpose of the long distance services and leased circuits for public use are not fully known by departments or Government.

10.53 Greater information on the use of commercial long distance service would contribute to more effective management of the government intercity network. Departments and agencies could determine the extent of their parallel commercial calls and the savings to be achieved through using facilities offered by GTA.

10.54 *Departments should identify and monitor the cost of commercial long distance calls originating with employees, calls accepted from the public and traffic on circuits leased for public use so that they can systematically analyse and report on the cost and provision of these services.*

10.55 **Controlling contracts for telecommunications services.** Section 21 of the Government Contracts Regulations permits departments and agencies to enter into and amend any contract for telecommunications services, regardless of the amount payable, as long as the rates conform to tariff and the contract does not involve payment of negotiated installation or capital charges in excess of \$100,000.

10.56 Most telecommunications equipment and circuitry services are leased by departments and agencies, and installation charges are normally below the level stipulated by the Treasury Board. Thus, in effect, departments have unlimited authority to enter into major contracts for equipment and circuitry. As a result, departments are making incremental expenditures on telecommunications without a comprehensive, approved plan of the final intended systems.

10.57 The importance of developing appropriate controls is emphasized by 1977-78 expenditures which show that telephone, teleprinter and other incidental services, representing 57 per cent or \$157 million of the reported \$275 million cost of telecommunications across Government, were obtained under this section of the Regulations.

10.58 *The Treasury Board should review the procurement of telecommunications services under the Government Contracts Regulations, with the objective of setting and defining the limits of control that departments and agencies should pursue to ensure control over major telecommunications proposals.*

ORGANIZATION AND PROGRAMS OF THE OFFICE OF THE AUDITOR GENERAL

ORGANIZATION AND PROGRAMS OF THE OFFICE OF THE AUDITOR GENERAL

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ORGANIZATION AND PROGRAMS OF THE OFFICE OF THE AUDITOR GENERAL

Introduction

11.1 The responsibilities of the Auditor General are set out in the Auditor General Act of 1977, reproduced as Appendix A to this Report. Four sections in the Act detail the Auditor General's responsibility to report to Parliament.

- *Section 6* requires the Auditor General to express an opinion on the financial statements of the Government of Canada.

- *Section 7* requires the Auditor General to report annually to the House of Commons anything that he considers to be of significance and of a nature that should be brought to the attention of the House of Commons including cases where public funds have been expended without due regard to economy, efficiency or effectiveness.

- *Section 8* enables the Auditor General to make a special report to the House of Commons on any matter of pressing importance or urgency that, in his opinion, should not be deferred until his annual Report is tabled.

- *Section 11* permits the Auditor General to inquire into and report on matters in response to requests from the Governor in Council. Under this Section, the Audit Office continued its examination of the Oil Import Compensation Program, referred to in Chapter 19 of this Report.

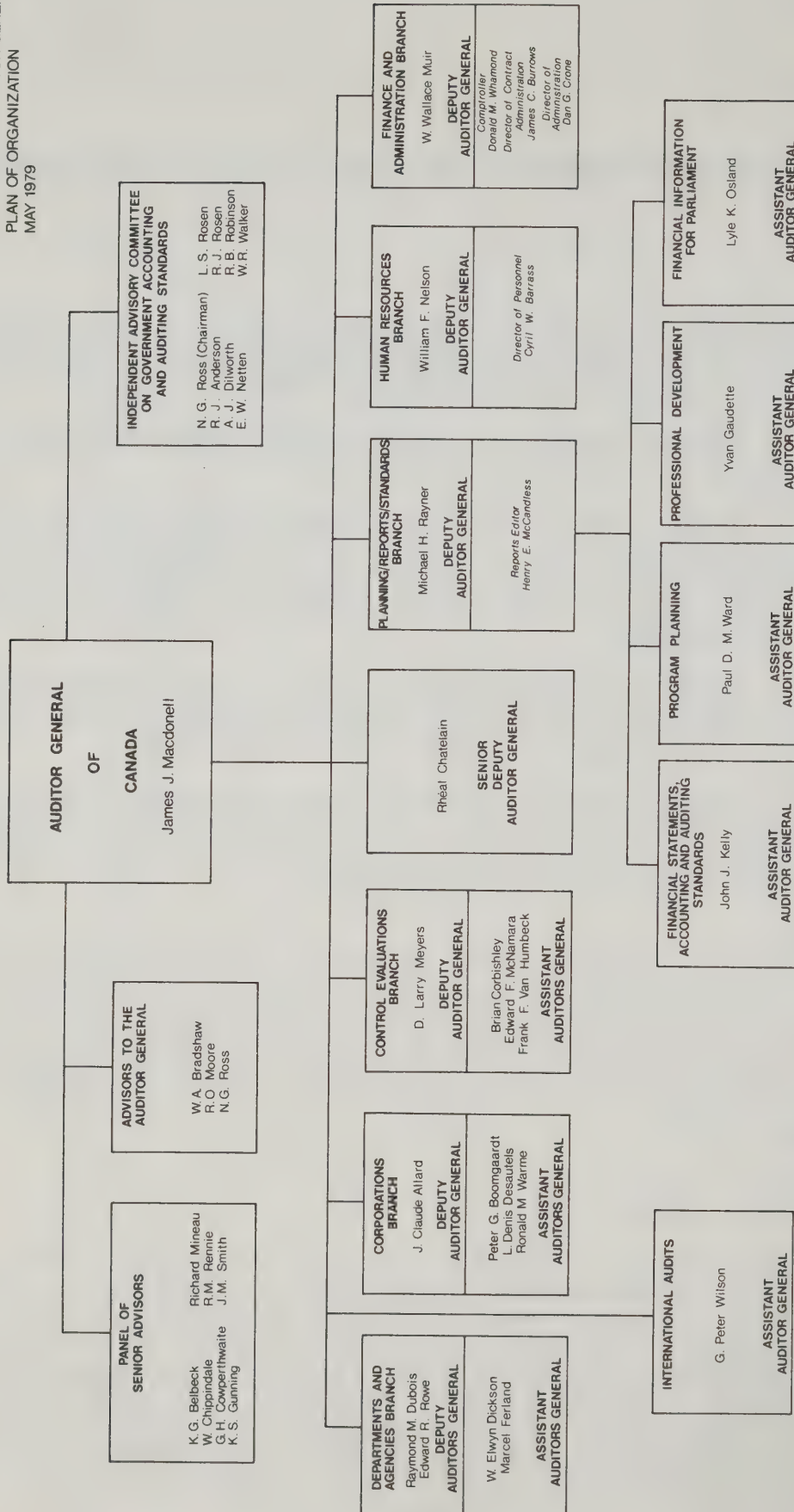
11.2 The Auditor General is also required to express an opinion on the accounts of 34 agency and proprietary Crown corporations, in accordance with Section 77 of the Financial Administration Act, and 50 departmental Crown corporations and other entities, including the accounts of the Governments of the Yukon and Northwest Territories and their agencies. As well, he expresses an opinion on the accounts of the United Nations and several of its agencies and affiliated organizations.

Organization of the Office

11.3 Our 1978 Report indicated a revised plan of organization which had been made possible, in large measure, by enactment of the Auditor General Act. Chapter 11 of the same Report outlined a proposed new approach to conducting our work for Parliament in the form of comprehensive auditing. This fundamental change in our approach received the approval of the Standing Committee on Public Accounts in its Second Report to Parliament, dated March 23, 1979. Following this endorsement, the Office announced some further significant organizational changes in May 1979. The new plan of organization has provided the strength of leadership and executive direction necessary to meet the

Exhibit 11.1

OFFICE OF THE AUDITOR GENERAL
PLAN OF ORGANIZATION
MAY 1979



Executive Committee - Auditor General, (Chairman); Deputy Auditors General.
Management Committee - Auditor General, (Chairman); Deputy Auditors General; Assistant Auditors General.

requirements imposed by the new concepts of the developing methodology of comprehensive auditing. The revised plan of organization is shown in Exhibit 11.1.

11.4 One of the principal features of the new plan is the establishment of six Branches. Each Branch is headed by one or more Deputy Auditors General. The Senior Deputy Auditor General is not identified with any Branch, but assumes the responsibility to act for and on behalf of the Auditor General when required. The Departments and Agencies Branch, the Corporations Branch, the Control Evaluations Branch, and the Planning/Reports/Standards Branch are responsible for audit operations and consist of one or more groups, each headed by an Assistant Auditor General. The increase in the number of senior executives appointed to Deputy and Assistant Auditor General positions is designed primarily to facilitate communication on audit matters with, and provide an appropriate level of contact for, departmental and agency deputy heads and senior executives of Crown corporations. Two Service Branches have been established: the Finance and Administration Branch and the Human Resources Branch.

11.5 The Executive Committee, composed of the Auditor General as chairman and the Deputy Auditors General, is responsible for the overall direction of the Office. The Management Committee, also chaired by the Auditor General, is made up of the Deputy Auditors General and the Assistant Auditors General. This Committee co-ordinates professional matters and audit programs and assists the decision-making of the Auditor General and the Executive Committee.

11.6 *The Departments and Agencies Branch* is responsible for organizing and conducting legislative, financial and comprehensive audits in government departments and agencies. Comprehensive audits are planned on a five-year reporting cycle.

11.7 *The Corporations Branch* is responsible for the organization and conduct of comprehensive audits in a selected number of Crown corporations for which the Audit Office has audit responsibility and for liaison with the management and auditors of other Crown corporations.

11.8 *The Control Evaluations Branch*, comprising a wide range of disciplines, provides specialist support to the audit teams and carries out quality control reviews of audit work in specialized areas. This Branch also conducts audits of financial, management and electronic data processing controls on a government-wide basis. The audit of the management of payroll costs, reported in Chapter 9, is an example of a government-wide issue.

11.9 *The Planning/Reports/Standards Branch* is concerned with a number of supportive and advisory professional activities, all vital to audit operations. A major responsibility is co-ordinating the preparation of the annual Report to the House of Commons, and maintaining continuous contact with the Standing

Committee on Public Accounts, with Members of Parliament, with central agencies of the Government and with the Office's legal advisers.

11.10 The Financial Statements, Accounting and Auditing Standards group co-ordinates the examination of the accounts and financial statements of the Government of Canada and recommends to the Auditor General the nature of the opinion he should provide on the main financial statements included in the Public Accounts. It advises the Auditor General on principles and practices of accounting appropriate to the accounts and financial statements of Canada, and on changes in the principles and practices which are proposed from time to time by the Government and by the Canadian Institute of Chartered Accountants. The group is also responsible for developing and maintaining modern auditing standards and procedures, conducting research in accounting and auditing, providing a consultative advisory service to staff, and developing and maintaining the Office's audit manuals and guides.

11.11 The Program Planning group co-ordinates both the development of the Office's audit plans and the assignment of professional staff to the various Branches. The Professional Development group is responsible for the training and development of professional personnel. The Financial Information for Parliament group is responsible for co-ordinating the government-wide study of information for Parliament and developing related audit methodology. It also conducts the legislative and financial comprehensive audits of Parliament and central government agencies.

11.12 *The Human Resources and Finance and Administration Branches* provide the various support services and controls required to staff and service the professional organization.

11.13 The Auditor General has three groups of advisors. Each group is made up of leading professionals from major accounting and management consulting firms. The *Panel of Senior Advisors* counsels the Auditor General on the application of comprehensive auditing, with particular emphasis on the application of comprehensive auditing to public sector corporate entities. Members of the Panel are:

- Kenneth G. Belbeck, C.M.C.,
President,
Stevenson & Kellogg
- Warren Chippindale, C.A.,
Chairman and Managing Partner,
Coopers & Lybrand
- Gordon H. Cowperthwaite, F.C.A.,
Senior Partner,
Peat, Marwick, Mitchell & Co., and
Peat, Marwick and Partners

- Kenneth S. Gunning, F.C.A.,
Executive Partner,
Thorne Riddell & Co.
- Richard Mineau, C.M.C.,
Managing Partner,
Price Waterhouse Associates
- Robert M. Rennie, C.A.,
Chairman and Chief Executive Officer,
Touche Ross & Co.
- Jack M. Smith, C.M.C.,
Chairman,
Woods, Gordon & Co.

11.14 *The Independent Advisory Committee on Government Accounting and Auditing Standards* is made up of senior members of accounting firms, management consulting firms, and university faculties. The Committee provides advice to the Auditor General on difficult accounting, auditing and reporting issues. Members of the Advisory Committee are:

- N. Glenn Ross, F.C.A. (Chairman),
Coopers & Lybrand
- Rodney J. Anderson, F.C.A.,
Clarkson, Gordon & Co.
- Alan J. Dilworth, F.C.A.,
Touche Ross & Co.
- Edward W. Netten, C.A.,
Price Waterhouse Associates
- Ronald B. Robinson, C.M.C.,
Stevenson & Kellogg
- Professor L.S. Rosen, F.C.A.,
York University
- Ruben J. Rosen, C.A.,
Touche Ross & Co.
- W. Ross Walker, F.C.A.,
Peat, Marwick, Mitchell & Co.

11.15 Three senior *Advisors to the Auditor General*, each with extensive experience in the Office, provide advice on complex professional matters referred to them and carry out assignments which take advantage of their expertise. They are:

- W.A. Bradshaw, F.C.A.,
Partner,
Touche Ross & Co.
- R.O. Moore, F.C.A.,
Retired Partner,
Woods, Gordon & Co.
- N. Glenn Ross, F.C.A.,
Partner,
Coopers & Lybrand

Assistance to the Standing Committee on Public Accounts

11.16 Senior members of the Office attend all meetings of the Standing Committee on Public Accounts to provide explanations concerning matters raised in the Auditor General's annual Report to the House of Commons. The Office also assists the Sub-Committee on Agenda and Procedure in planning the Committee's schedule for its review of the annual Report.

11.17 During the past year, the Committee completed its consideration of the 1977 annual Report, reviewed the Public Accounts of Canada for the year ended March 31, 1978, and considered a number of areas in the 1978 annual Report. Recommendations of the Committee were included in its three Reports to the House of Commons which are reproduced in Appendix D.

Audit Operations

11.18 Chapter 2 outlines the development, objectives and methodology of auditing under the broadened mandate set out in the Auditor General Act. Chapters 3 through 7 describe the results and outstanding audit issues arising from our work in several areas of financial and general management across Government during the past five years. The six audits reported in Part 2 of our 1978 Report represent exploratory work in comprehensive auditing; the comprehensive audits reported in Chapters 12 through 17 of this Report include the findings, observations and recommendations arising from six comprehensive audits carried out during the past year.

11.19 With the full co-operation of seven Crown corporations, two of which are audited by private sector firms, the Corporations Branch has undertaken development of comprehensive auditing in Crown agencies. These audits will serve as "laboratory audits" for developing audit and reporting standards for

Crown corporations. Chapter 18 contains lists of all Crown corporations and other entities examined by the Auditor General and sets out qualifications and other matters in his reports on those entities.

11.20 Chapters 9 and 10 report the results of two government-wide studies: payroll costs management and telecommunications management.

11.21 Observations reported under Section 7 of the Auditor General Act on irregularities disclosed during Audit Office examinations and on other matters the Auditor General considers should be brought to the attention of the House of Commons are discussed in Chapter 19. Chapter 19 also comments on specific matters dealt with in previous Reports that are of sufficient significance to be reported to the House of Commons again. These comments arise from our follow-up and monitoring of actions taken to correct deficiencies previously reported.

11.22 The Auditor General's opinion on the main financial statements of the Government of Canada and his observations on these statements appear in Volume I of the Public Accounts.

International Audits

11.23 During the past year, the Office had major responsibilities in the audit of the United Nations and its associated organizations, the International Civil Aviation Organisation, and the International Monetary Fund. We also participated in the work of a variety of international audit organizations.

11.24 The Auditor General of Canada is one of three members, and the current chairman, of the Board of Auditors of the United Nations appointed by the General Assembly. The other members are the Auditors General of Bangladesh and Ghana. The work of the Board is carried out by an Audit Operations Committee, consisting of three full-time Directors of External Audit, one from each member country, and a Director General of External Audit who serves as Chairman. G. Peter Wilson, Assistant Auditor General, serves as Director General and Chairman of the Committee, and Bonnie P. Miller, a Principal in the Office, serves as the Director of External Audit for Canada. Sixteen other members of the Office participated in the 1978 audit which involved assignments in New York, Vienna, Santiago, Lima, Port of Spain, Caracas and Bangkok.

11.25 Canada was one of the three original members of the Board of Auditors and served from June 1945 until June 1956, and again from July 1968 until the present. Canada has taken the lead in introducing modern audit practices and organizational changes, including the establishment of the Audit Operations Committee in 1976. This Committee enabled the members to discharge their joint and several responsibilities more effectively. Canada will retire from the Board in June 1980.

11.26 Report to the Board of Auditors. Following Canada's decision not to stand for re-election to the Board of Auditors, the Auditor General of Canada, with the concurrence of the other two members, commissioned a review of the Board's organization and professional practices. This study was undertaken by two Canadian consultants, N. Glenn Ross, F.C.A., of Coopers & Lybrand and L. Denis Desautels, C.A., of Clarkson, Gordon & Co., who had also studied Canada's role and professional responsibilities as a member of the Board in 1976.

11.27 The consultants' report proposed that:

- the Board of Auditors should operate as an audit committee and its membership should be increased to be more representative of the United Nations;
- an Auditor General should be appointed by the General Assembly, on nomination of the Board, and should be given responsibility for conducting the audit in accordance with an audit plan approved by the Board of Auditors. The Auditor General would replace the Audit Operations Committee, which conducts the audit on behalf of Board Members; and
- the Auditor General should be responsible for selecting audit staff and giving due regard to professional qualifications and experience, taking into consideration appropriate representation from various regions of the world. At present, auditors are chosen primarily from the staffs of the three Board Members.

11.28 These changes were proposed to:

- provide continuity in the staffing and execution of the United Nations audit assignments while permitting greater participation by Member States in Board activities;
- permit the audit function to cope more easily with the increasing complexity, decentralization and interrelationship of United Nations activities and with the increasing sophistication of the United Nations accounts;
- take advantage of contemporary audit techniques; and
- improve Member States' auditing techniques and standards through participation in the United Nations audit.

11.29 The consultants' report was reviewed by the Board of Auditors during its meeting in June 1979. It was decided that the recommendations for reorganizing the Board should be pursued through the national delegations to the United Nations and that Canada should take the initiative. During the current session of

the General Assembly, the Canadian Permanent Representative, Ambassador W.H. Barton, introduced a paper based on the consultants' report. This prompted considerable debate and the General Assembly has since decided to seek the views of other expert bodies before taking the matter up again at a subsequent session.

11.30 The Auditor General of Canada is the external auditor for the International Civil Aviation Organisation (ICAO), a Specialized Agency of the United Nations, with headquarters in Montreal. The annual report for the year ended December 31, 1978, which was submitted to the Assembly of ICAO in May 1979, included the highlights of the financial management and control study conducted in the previous year. The audit of ICAO is carried out by the staff of our Montreal Regional Office under the general direction of Mr. G. Peter Wilson, who is also the external auditor of ICAO's Joint Financing Agreements with Denmark and Iceland.

11.31 Once again, Canada provided a member of the External Audit Committee for the International Monetary Fund; the other members were from Iceland and Sri Lanka. Harold E. Hayes, a Principal in our Office, served as Chairman of the Committee at the Fund's Headquarters in Washington, D.C. during May and June of this year.

11.32 Senior members of the Office participated in a number of international activities. The Auditor General led the Canadian delegation to the tenth Conference of Commonwealth Auditors General in London, England in October 1978. Other members of the delegation were Assistant Auditors General R.M. Dubois and G.P. Wilson, and H.E. McCandless, Principal, Reports and Communications.

11.33 The Panel of External Auditors of the United Nations, the Specialized Agencies, and the International Atomic Energy Agency held its 21st Regular Session at the United Nations Offices in Geneva, Switzerland in October 1979. Canada was represented by Auditor General J.J. Macdonell and Assistant Auditor General L.D. Desautels. Mr. Wilson and Miss Miller participated as members of the Audit Operations Committee of the UN Board of Auditors.

11.34 Senior Deputy Auditor General Rhéal Chatelain represented the Auditor General at the annual meeting of the Governing Board of the International Organisation of Supreme Audit Institutions (INTOSAI), held in Nairobi, Kenya in June 1979.

11.35 Currently, Mr. Wilson serves as a member of the International Governmental and Public Affairs Committee of the Institute of Internal Auditors and chairs its sub-committee on International Relations.

Joint Initiatives with Other Organizations

11.36 Centennial Conference of the Office. On December 7 and 8, 1978, the Audit Office held a Centennial Conference on the theme "Comprehensive Auditing -- Planning for Century II". Held in part to commemorate the first 100 years of the Office, it was also a unique opportunity for the ten provincial legislative auditors and other distinguished international guests and colleagues to meet to discuss legislative auditing and the role of auditors, public service managers and public accounts committees. The Speaker of the House of Commons, The Honourable James A. Jerome, opened the Conference. Speakers included:

- The Honourable Elmer B. Staats,
Comptroller General of the United States
- The Honourable Alan A. MacNaughton,
former Speaker of the House of Commons and
former Chairman of the Standing Committee on
Public Accounts
- The Right Honourable Edward D.L. du Cann,
Chairman, Select Committee on Public Accounts,
House of Commons, United Kingdom
- A. Ronald Huntington,
Chairman, Standing Committee on Public Accounts,
House of Commons
- Patrick Reid,
Chairman, Standing Committee on Public Accounts,
Legislative Assembly of Ontario
- Sylvain Cloutier,
Deputy Minister of Transport
- Marshall A. Cohen,
Deputy Minister of Energy, Mines and Resources
- Harry G. Rogers,
Comptroller General of Canada
- D.W. Rogers,
Auditor General of Alberta
- F. Norman Scott,
Provincial Auditor,
Province of Ontario

11.37 Agenda items during the two days were: Government Auditing -- An International Review; The Present and Future Role of the Public Accounts

Committee; Managing Public Funds and Resources; Developing the Comprehensive Auditing Approach; Case History of a Departmental Comprehensive Audit; Canada Customs; Case History of a Government-wide Value-for-Money Study; Auditing Capital Expenditures. Proceedings of the Conference were subsequently prepared and distributed to participants and made available to others in the hope that they would make a useful contribution to the literature on public sector auditing.

11.38 Legislative Auditors' Conference. The Canadian legislative auditors held their seventh annual conference in St. John's, Newfoundland, August 13-15, 1979 to exchange views on technical and other matters of common interest. Some 40 senior members of the federal and provincial audit offices attended. In addition, a number of the chairmen of the various public accounts committees attended as observers and participated in a joint session with the legislative auditors on the final day. The agenda included such topics as: Comprehensive Auditing -- Methodology Development; Establishment of a Canadian Comprehensive Auditing Foundation for methodology development and training; Professional Development Programs; Comprehensive Auditing -- A Report from the Coordinating Committee; Overview of the Royal Commission on Financial Management and Accountability; and Financial Reporting by Governments. Guest speakers included The Honourable A. Brian Peckford, Premier of Newfoundland; Professor J.E. Hodgetts, University of Toronto, a member of the Royal Commission on Financial Management and Accountability (Lambert Commission); and James D.N. Ford, Vice-President, Hiram Walker-Gooderham & Worts Limited, financial adviser to the Lambert Commission.

11.39 The Canadian Comprehensive Auditing Foundation. Three provinces, Alberta, British Columbia and Ontario, now have audit legislation that includes value-for-money clauses that are similar to those of the Auditor General Act. Other provinces have such legislative provisions under consideration and several legislative auditors have been applying some of these concepts in the conduct of their work for many years.

11.40 Given these developments, it seems sensible and economical for the eleven Canadian legislative auditors to share their knowledge of the evolving methodology of comprehensive auditing as well as for related staff training programs.

11.41 As indicated in paragraph 11.38, this subject was discussed at the seventh annual conference of Canadian legislative auditors last August. It was concluded that the group should work toward the formation of a national, non-profit organization for methodology development and training, modelled to some extent on the Canadian Tax Foundation.

11.42 This Canadian Comprehensive Auditing Foundation, a professional, independent body, will be established for the purpose of pooling the methodology

and professional development activities of both external and internal auditors in the public and private sectors, who are responsible for applying comprehensive auditing to the clients they serve. Because of the particular expertise possessed by management consulting firms in undertaking value-for-money examinations, practitioners of this professional group will also be contributors to and participants in the Foundation.

11.43 The Foundation project now has the direct support of, among others, the eleven Canadian legislative auditors, the Comptroller General of Canada, a past international president of the Institute of Internal Auditors, and the members of the Panel of Senior Advisors, referred to in paragraph 11.13. The Executive of the Canadian Institute of Chartered Accountants has also expressed its interest in the Foundation.

11.44 The organizational and operational structures and the activities of the Foundation are currently being defined. It is expected that the Foundation will be incorporated early in 1980.

11.45 This is an exciting development. Its possibilities for enhancing the effectiveness of comprehensive audits in the public and private sectors are striking. It even has potentially important international possibilities.

11.46 1979 Executive Interchange Program. In September of this year, 42 carefully selected individuals from accounting and consulting firms across the country joined the Office to take part in an intensive program in comprehensive auditing. The group is composed of partners, managers and consultants. All are participating under the Executive Interchange Program of the Public Service Commission. The objective is to have these professionals spend two intensive, well-programmed years with the Office as active participants in comprehensive auditing in the public sector. These professionals will then return to their offices throughout Canada and provide the nucleus of a professional group, familiar with the philosophy and practices of comprehensive auditing, and experienced in their application in the public sector.

Resources of the Office

11.47 Human resources. The development and introduction of comprehensive auditing have modified the staff profile of the Office, creating an environment for multi-disciplinary professionals with a wide variety of skills. Professional staff have been recruited in such fields as engineering, systems development, electronic data processing and personnel management. In addition, extensive training programs on comprehensive auditing have been developed for members of our staff and for other professionals associated with the Office.

11.48 At August 1, 1979, 227 of the full-time professional staff of the Office were qualified for membership in recognized accounting associations. There were 28 members of professional staff with other qualifications, and 93 students-in-accounts were enrolled in programs leading to accounting designations.

11.49 The following table presents a profile of full-time staff at recent dates, excluding those recruited under the Executive Interchange Program.

	August 1 <u>1979</u>	March 31 <u>1979</u>	March 31 <u>1978</u>
Principals, including the Senior Management Group	37	26	24
Directors and Managers	73	77	67
Supervisors and Auditors	146	145	136
Other audit staff	97	90	91
Support and Administration Staff	<u>150</u>	<u>150</u>	<u>140</u>
	<u>503</u>	<u>488</u>	<u>458</u>
National Capital Region	402	386	360
Other Regions	<u>101</u>	<u>102</u>	<u>98</u>
	<u>503</u>	<u>488</u>	<u>458</u>

11.50 The Office continues to make extensive use of professional resources available from the private sector, not only to supplement the work of the permanent staff but also to provide a variety of specialized knowledge and experience not required on a full-time basis. At August 1, 1979, there were 25 individuals associated with the Office under the Public Service Commission's Executive Interchange Program, and 224 persons on professional service contracts. At September 4, 1979, the Executive Interchange group was augmented by 42 additional professionals, participating in the Comprehensive Auditing Development Program referred to in paragraph 11.46.

11.51 Members of the Audit Office who retired during the year: Victor A. Phillips, F.C.A., Assistant Auditor General and formerly Director General of the Audit Services Bureau, Department of Supply and Services, with 27 years in Canada's Public Service; Argadie Becker, B.Comm., an Audit Manager with the Vancouver Office, with 30 years in the Public Service; Roy Sewell, C.A., an Audit Manager with the Halifax Office, with 26 years in the Public Service; Roger M. Bain, C.A., an Audit Supervisor in the Vancouver Office, with 23 years in the

OFFICE OF THE AUDITOR GENERAL OF CANADA
ESTIMATES AND EXPENDITURES

Estimates and Expenditures by Activity					
	1979-80	1978-79		1977-78	
	<u>Estimates</u>	<u>Estimates</u>	<u>Expenditures</u>	<u>Estimates</u>	<u>Expenditures</u>
	(thousands of dollars)				
Government Audits	22,283	21,947	20,435	18,501	17,595
Other Audits	542	619	489	509	576
Administration	<u>2,995</u>	<u>2,936</u>	<u>2,838</u>	<u>2,364</u>	<u>2,549</u>
TOTAL	<u>25,820</u>	<u>25,502</u>	<u>23,762</u>	<u>21,374</u>	<u>20,720</u>
Estimates and Expenditures by Object					
	1979-80	1978-79		1977-78	
	<u>Estimates</u>	<u>Estimates</u>	<u>Expenditures</u>	<u>Estimates</u>	<u>Expenditures</u>
	(thousands of dollars)				
Salaries and Wages	13,622	11,806	11,537	10,649	9,774
Employee Benefit Plans	1,541	1,476	1,466	1,313	1,280
Transportation and Communications	1,235	1,104	1,066	976	855
Information	87	121	122	88	55
Professional and Special Services including Executive Interchange	8,657	10,303	8,640	7,417	7,822
Rentals	149	111	209	80	118
Purchased Repair and Upkeep	56	19	28	12	27
Utilities, Materials and Supplies	314	455	386	175	270
Construction and Acquisition of Machinery and Equipment	141	92	304	627	512
All Other Expenditures	<u>18</u>	<u>15</u>	<u>4</u>	<u>37</u>	<u>7</u>
TOTAL	<u>25,820</u>	<u>25,502</u>	<u>23,762</u>	<u>21,374</u>	<u>20,720</u>

Public Service; Herbert L. Ellacott, an Auditor, with 35 years in the Public Service; Marion V. Ripley, R.I.A., an Auditor, with 21 years in the Public Service.

11.52 Official languages. During the year, we reviewed the language requirements of numerous positions as an integral part of the development of the Office's Official Languages Program for fiscal year 1979-80. As a result, the language requirements of 287 positions have been reviewed, 26 employees have taken the Language Knowledge Examination and 35 have begun full-time or part-time language training.

11.53 Estimates and expenditures. Exhibit 11.2 presents the Estimates and Expenditures of the Office, by Activity and by Object.

PART 2

DEPARTMENTS, AGENCIES AND CROWN CORPORATIONS

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PART 2

DEPARTMENTS, AGENCIES AND CROWN CORPORATIONS

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CANADIAN INTERNATIONAL DEVELOPMENT AGENCY

CANADIAN INTERNATIONAL DEVELOPMENT AGENCY

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CANADIAN INTERNATIONAL DEVELOPMENT AGENCY

SUMMARY OF FINDINGS, OBSERVATIONS AND RECOMMENDATIONS

Introduction

12.1 The Canadian International Development Agency (CIDA) was established by Order in Council in 1968 to succeed the External Aid Office which reported to the Secretary of State for External Affairs. The President heads the Agency which reports to both the Minister of State for the Canadian International Development Agency and the Secretary of State for External Affairs.

Objectives

12.2 CIDA is charged with the responsibility of administering Canada's official program of assistance to developing countries. Its objective, as stated in the Estimates for the fiscal year ending March 31, 1979, is:

"To support the efforts of developing countries in fostering their economic growth and the evolution of their social systems in a way that will produce a wide distribution of the benefits of development among the populations of these countries, enhance the quality of life and improve the capacity of all sectors of their population to participate in national development efforts."

12.3 **Development assistance policy.** Canada's Strategy for International Development Cooperation 1975-80 has set the framework for Canadian development assistance policy in recent years. A major element of the Strategy is the United Nations' target for aid of 0.7 per cent of donor nations' gross national product (GNP). The target was accepted by the Government as the goal toward which the Canadian development assistance program would gradually move. At present, Canadian aid disbursements represent 0.49 per cent of GNP.

Organization

12.4 The Agency has three program branches with responsibility for delivering Canada's aid:

- the Bilateral Programs Branch;
- the Multilateral Programs Branch; and
- the Special Programs Branch.

12.5 The Bilateral Programs Branch provides economic, technical and social development assistance directly to developing nations. In four geographic regions, it manages more than 2,400 projects with a value exceeding \$3 billion. Bilateral projects are classified according to 14 sectors (e.g. agriculture, education, etc.) and 146 sub-sectors.

12.6 Canadian diplomatic posts have 104 person-years (50 from CIDA and 54 from the Department of External Affairs) allocated to oversee the operation of CIDA aid projects. In addition to full-time staff, the Bilateral Programs Branch uses the services of a substantial number of individuals and companies in Canada and abroad.

12.7 The Multilateral Programs Branch provides funds, in common with other countries, to international institutions responsible for delivering assistance to developing countries. In 1977-78, the Multilateral Programs Branch assisted more than 50 individual agencies or programs and four international financial institutions.

12.8 The Special Programs Branch assists Canadian and international non-governmental organizations which, in turn, assist developing nations. This program was first established in 1968 to help Canadian non-governmental organizations, through matching grants, to increase and expand their activities without interfering with their independence and autonomy. CIDA contributes to about 250 of these organizations. Under the Industrial Cooperation Program, the Branch's activities have expanded to include support for Canadian industrial firms.

12.9 CIDA distinguishes between general development assistance, and food aid and international emergency relief. The latter two forms of assistance can be channelled through any one of the three delivery alternatives.

12.10 As well as the three program branches, there are five support branches. These are the Comptroller's, Resources, Policy, Personnel and Administration, and Communications Branches. The organization of the Agency is set out in Exhibit 12.1. The Programs Branches and the Comptroller's, Resources, and Policy Branches are headed by Vice-Presidents. Directors General are in charge of the other two.

12.11 **Financial and other data.** The person-years and the budgetary and non-budgetary financial resources of the Agency, as shown in the Main Estimates for 1978-79, are summarized as follows:

1978-79 Person-Years		Budgeted Expenditures (millions of dollars)	
		1978-79	1977-78
438	Bilateral Development Assistance	528.0	485.0
26	Multilateral Development Assistance	192.8	92.8
	Food Aid Assistance	230.0	261.0
59	Special Development Assistance	63.9	55.2
	International Emergency Relief	5.0	2.0
446	Departmental Administration (includes Policy & Resources Branches)	17.9	17.6
<u>969</u>		<u>1,037.6</u>	<u>913.6</u>

Environment

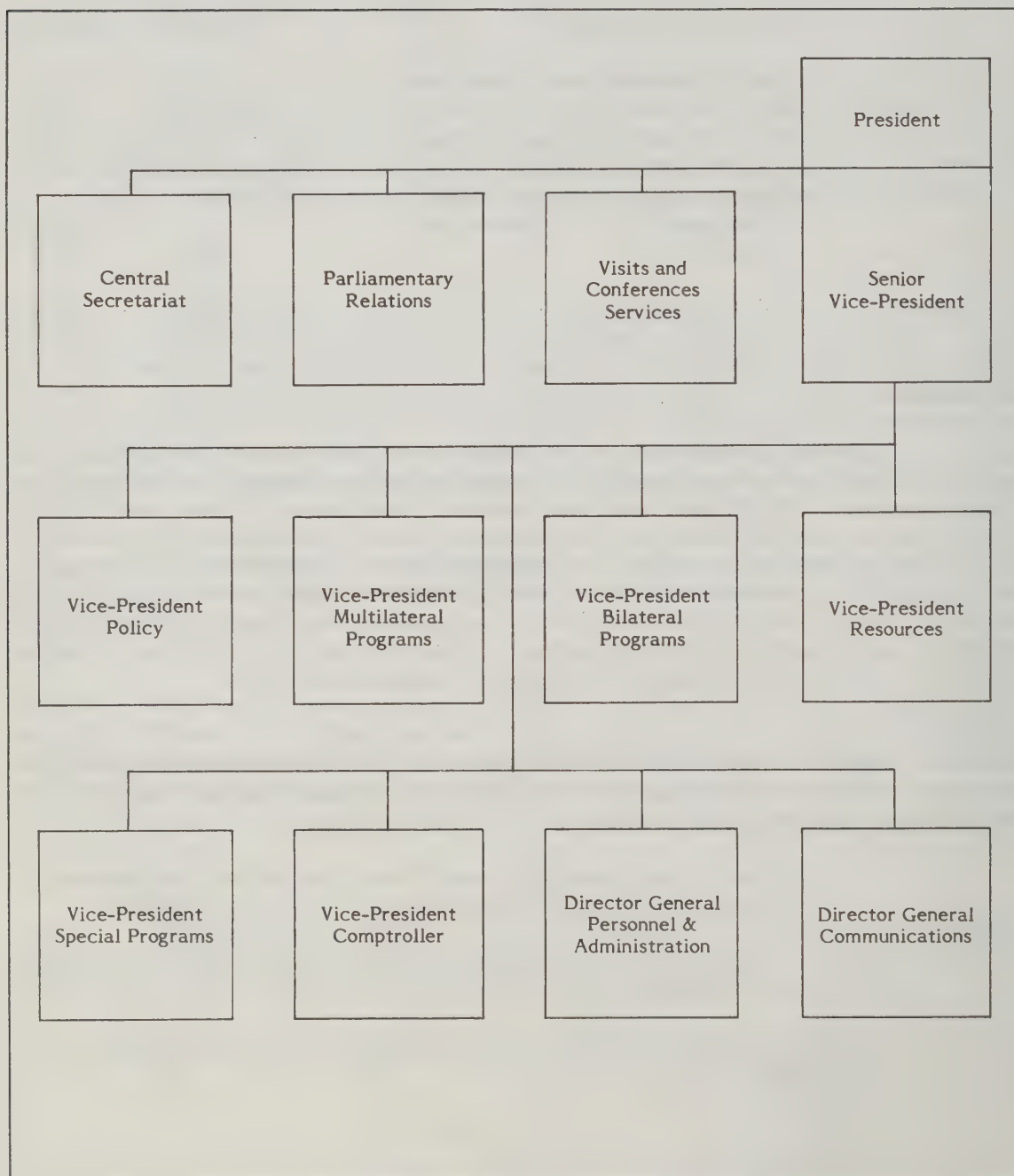
12.12 Canada participates in a number of international organizations devoted to development co-operation. These include the United Nations Development Program (UNDP) and the Development Assistance Committee (DAC), established by the Organisation for Economic Co-operation and Development (OECD) to co-ordinate the efforts of donor nations. The Minister of Finance is the Governor for Canada in the World Bank and in the Asian, Inter-American and Caribbean Development Banks. In these regional banks, Canada is also represented by permanent Executive Directors. The Secretary of State for External Affairs is Governor for Canada in the African Development Fund.

12.13 CIDA is responsible for managing a large and complex program. Its activities are influenced by many domestic and international factors over which it has limited or no control, including:

- the social and economic conditions that affect the ability of developing countries to absorb various forms of assistance;
- the availability of skilled people who are prepared to travel to the developing countries;
- the activities of other donor countries and international institutions; and

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SUMMARY ORGANIZATION CHART



- the effect of the specific objectives of other departments, especially the Departments of External Affairs; Finance; Industry, Trade and Commerce; and Agriculture.

12.14 The procurement function in the Agency is subject to the provisions of the Financial Administration Act and the Government Contracts Regulations. It is also influenced by the fact that:

- all procurement contracts are to be governed by the provisions of general agreements between Canada and the recipient country and by specific agreements for each project; and
- the procurement activities are handled by the Department of Supply and Services, although CIDA has direct responsibility for projects being supported with grant aid; for projects supported by loans, unless otherwise specified in the loan agreement, CIDA has only monitoring responsibility.

Scope of the Audit

12.15 Our comprehensive audit of CIDA included an examination of the Agency's major programs and management systems. In the case of the financial management system, we paid particular attention to:

- the role and organization of the Comptroller's Branch;
- the financial management and control processes;
- the internal financial reporting systems; and
- the financial information Parliament receives.

12.16 In the Bilateral Programs Branch, we reviewed management controls over projects, programs and human resources, and the Agency's procedures for evaluating program effectiveness. In the Multilateral Programs Branch, we focused on management procedures for planning and monitoring the program and for evaluating its effectiveness. Within the Special Programs Branch, we examined procedures for determining the allocation of funds and for the monitoring of organizations and projects it is supporting.

12.17 We reviewed the role of the Operational Audit Division in the Agency, concentrating on its use of resources, audit planning, audit practices, reporting and follow-up procedures. We also examined the payroll costs management procedures in the Agency, selecting the areas of manpower planning, training and development, and human resource information systems for in-depth study.

12.18 The acquisition of goods and services is a significant part of CIDA's activities. We examined the systems and procedures for procuring goods and for securing the services of consultants and advisers.

12.19 Following each segment of our review, we issued a report to the Agency outlining our findings and recommendations. This Chapter contains a summary of the most significant of these findings.

12.20 We wish to express our appreciation for the assistance and co-operation extended to us by the Agency's personnel during our examination.

Summary of Audit Observations

12.21 Since its establishment in 1968, the primary focus of CIDA's efforts has been in carrying out its principal purpose -- the delivery of Canadian assistance to developing countries. During this period, CIDA's budget increased from less than \$160 million to more than \$1 billion. The emphasis on program delivery, however, has not until recently been supported by the development and implementation of adequate management systems.

12.22 CIDA has recently taken a number of positive steps towards improving its overall management processes, such as establishing the Resources and Comptroller's Branches. However, there still appears to be insufficient recognition or understanding of the importance of financial management and control as a fundamental responsibility of line management.

12.23 In previous studies in 1975 and 1976, we identified financial control weaknesses within CIDA in the areas of:

- financial reporting;
- cash forecasting;
- commitment control;
- variance analysis procedures; and
- documentation of financial control policies and procedures.

The Agency responded by establishing a Comptroller's Branch in 1977 and appointing a Vice-President Comptroller in early 1978. These important steps were designed to strengthen financial management practices and procedures.

12.24 The Agency also initiated the development of a Financial Accounting and Control System (FACS) in 1977 which was subsequently abandoned as it was deemed inappropriate to satisfy fully the needs of management. Recently, the Vice-President Comptroller prepared detailed Work Plans to correct some known deficiencies. The Work Plans focused almost exclusively on the needs of the Comptroller's Branch and did not present a clear statement of the short- and long-term issues and priorities facing the Agency as a whole. Currently, a Long Range Systems Plan is being developed, and this plan is expected to be completed by the end of 1979.

12.25 A start has been made toward improving financial management but progress in actually instituting improvements has been slow. The development of effective financial management and control systems needs to be given greater priority, particularly in view of the considerable financial resources administered by CIDA. The development of these systems will require the full commitment of all managers in the Agency.

12.26 Weaknesses also existed in project management and control within the Bilateral Programs Branch. The magnitude, diversity and complexity of the projects demand sound management and control practices for planning and implementing them.

12.27 We found that the major deficiencies in project management and control systems within the Bilateral Programs Branch were:

- a lack of consistently applied and understood methods of formal project planning and control;
- inadequate volume and quality of information from field project managers; and
- a lack of preciseness in the methods used to evaluate the effectiveness of projects. Evaluation plans were expressed in broad or general terms.

12.28 Although CIDA is unable to evaluate the effectiveness of the development projects initiated by multilateral agencies with the assistance of Canadian funds, the Multilateral Programs Branch is encouraging the multilateral agencies to conduct such evaluations. However, CIDA is now conducting a limited assessment of the organizational capability of multilateral agencies to which Canada is providing funds. These assessments could be improved and considered more extensively by CIDA in allocating its funds. A formal procedure for the Multilateral Programs Branch to assess and rank competing requests for multi-year commitments of funds would be useful.

12.29 In the Special Programs Branch, we found that effective control over the use of the funds entrusted to non-governmental organizations (NGO) was limited. This was due to the Agency's practice of non-interference with the organizations being supported. While the Agency had included in its agreements with the NGOs the terms and conditions required by a Treasury Board directive relating specifically to contributions to Canadian NGOs, the monitoring of compliance with these terms needed to be improved.

12.30 Procedures governing contracting for goods and services, which has accounted for approximately two-thirds of CIDA's budget in the last decade, needed to be strengthened, mainly in the following areas:

- a clear and precise definition and understanding of responsibilities was needed between CIDA and those agencies procuring food to ensure value was being received for public funds disbursed;
- more stringent conditions with suppliers were required to ensure that goods met quality and delivery specifications; and
- greater control was required over contracts with consultants and advisers, experts and educators to ensure minimal amendments, proper authorizations, and early detection and justification of possible cost overruns.

12.31 The proper determination of personnel requirements for program administration is a complex task and, although the Agency had recognized the need for effective manpower planning, it had not developed systematic procedures for doing so. As a result, the Agency did not know with reasonable certainty how many people were required to carry out its programs.

12.32 The Agency did not have formal procedures for determining priorities for training and development or for evaluating benefits derived from such training. CIDA's personnel information systems were not satisfying the needs of managers.

12.33 Because of incomplete audit coverage, the Agency's internal audit activities have not provided the President with enough information to assist him in the overall management of CIDA. Furthermore, methods and procedures for planning and monitoring audit assignments had not been fully established in the Operational Audit Division.

12.34 In summary, although weaknesses continue to exist throughout the Agency's operations, management is aware of them and is developing or implementing corrective action.

Financial Management

12.35 Background. The quality of financial management within CIDA has concerned this Office for several years. In 1975, we identified problems as a result of our Financial Management and Control Study. Our examination in 1976 of the management of grants and contributions in Government revealed further weaknesses.

12.36 In 1977, CIDA completed The Corporate Review, an internal study commissioned by the President's Office, that outlined a number of significant steps designed to strengthen management practices and procedures. In the same year, the Agency created the Comptroller's Branch to oversee all aspects of CIDA's financial management policies and procedures. The Vice-President Comptroller, appointed in 1978, has recognized the weaknesses in the Agency's financial management systems and has sought the support of senior managers in gradually instituting changes and improvements.

12.37 Scope of audit. Our audit of CIDA's financial management function included an examination of:

- the role of financial management;
- financial planning;
- control of commitments;
- control of disbursements; and
- financial reporting systems.

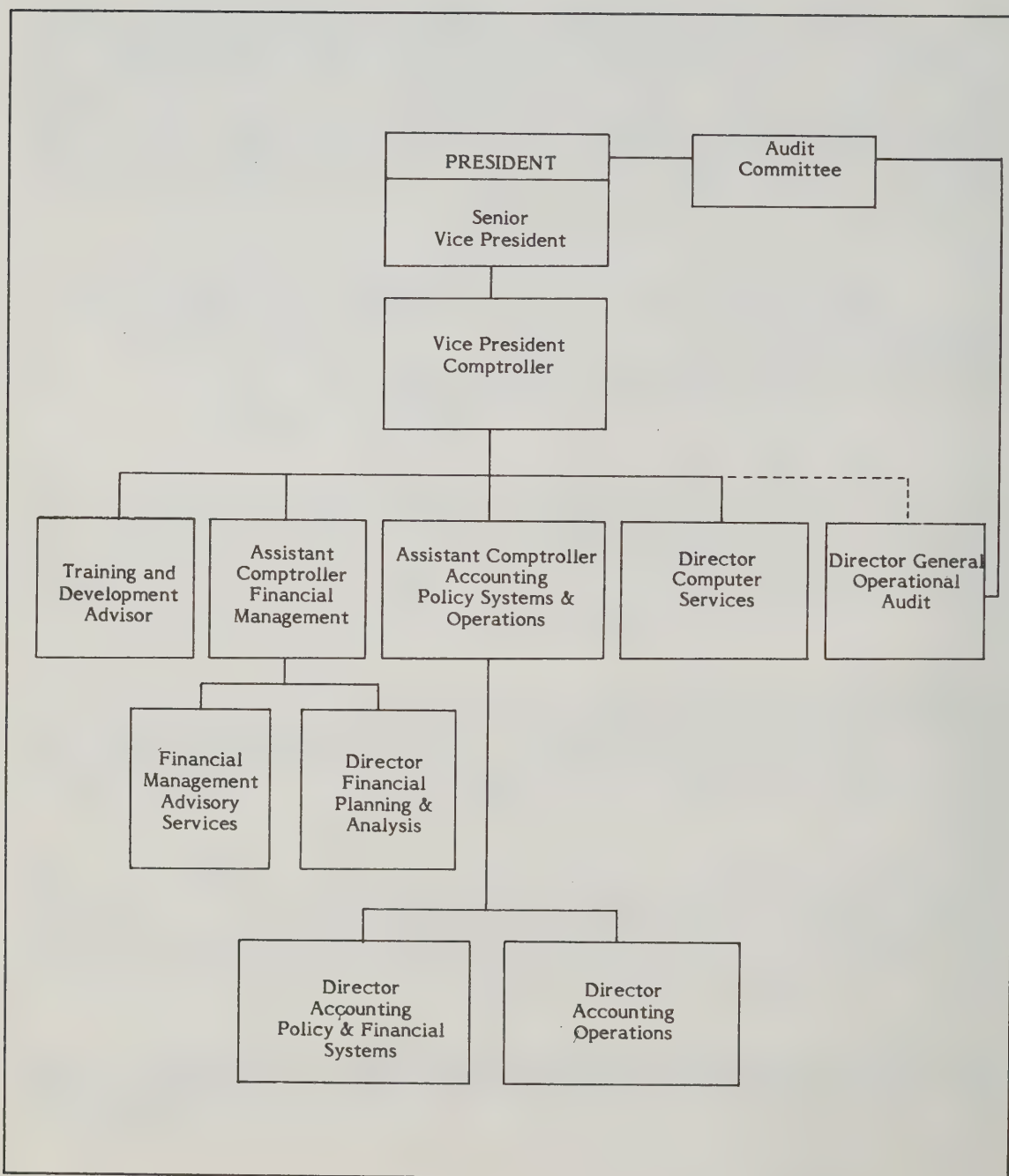
The Role of Financial Management

12.38 CIDA took positive steps to improve financial management in the Agency when it established the Comptroller's Branch and appointed a Vice-President Comptroller. The present organization of the Branch is shown in Exhibit 12.2.

12.39 The Vice-President Comptroller is responsible for:

- policy, direction and systems for financial administration in the Agency;
- functional direction to responsibility centre managers to ensure that financial responsibilities are being properly discharged; and

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ORGANIZATION OF THE COMPTROLLER'S BRANCH**



- development, implementation and maintenance of all management information systems.

12.40 In August 1978, the Agency formed the Management Advisory Committee on Information Processing (MACIP) which was intended to guide the development of the Agency's information systems. Although this Committee was not fully operational until March 1979, it is now beginning to consider CIDA's many systems development needs.

12.41 In August 1978, the Vice-President Comptroller issued Work Plans for his Branch for the next two-and-one-half years. These Plans were designed to overcome some of the deficiencies that had been identified within the Agency. Following discussions with the Comptroller General, revised Work Plans were developed for the fiscal years 1979-80 and 1980-81. These Plans provide for:

- developing and implementing financial control procedures in the Agency;
- improving functional guidance and support to managers in the program branches; and
- increasing substantially the resources of the Comptroller's Branch.

The revised Plans were submitted to Treasury Board for approval in January 1979. Although the Board recognized that the Agency needed to strengthen the resources of the Comptroller's Branch, it reduced significantly the proposed increase in personnel.

12.42 The Work Plans focused almost exclusively on the immediate needs of the Comptroller's Branch and did not present a clear statement of the short- and long-term issues and priorities facing the Agency as a whole. We were informed that these issues and priorities will be covered in a Long Range Systems Plan, which is to be completed by late 1979.

12.43 Our review indicated that, in planning improvements, there was not sufficient involvement of CIDA's programs branches with the Comptroller's Branch. In addition, the relationship between the Work Plans and the Long Range Systems Plan had not been identified and did not appear to be clearly understood throughout the Agency.

12.44 CIDA has Financial Management Advisors (FMA) whose function is to provide support to program managers. This concept is sound and is supported by the Comptroller's Work Plans. The Agency identified nine FMA positions but had filled only five of them. Although the FMAs were reporting to the Vice-President Comptroller, CIDA plans to have them report to program managers eventually.

12.45 The Agency recognizes the necessity of strengthening the role of financial management. However, in our opinion, priority needs to be given to the development and implementation of effective financial management and project control systems, particularly in view of the size of the financial resources administered by CIDA. The development of these systems will require the full commitment of all managers in the Agency. Although some improvements have been achieved, progress has been slow.

Financial Planning

12.46 CIDA's planning process differs from that carried out for most government programs. Usually, planning processes start by assessing basic program objectives; they then consider the current and future needs or demands for the goods or services provided by the program; assess alternative approaches to meeting these needs; and conclude with a forecast of the resources required to carry out the approved alternative. Planning Canadian international development assistance, however, is strongly affected by the relationship between Canada's policy of Official Development Assistance and GNP.

12.47 The volume of aid is determined by projecting GNP for the next five years and determining the level of aid in light of the goal of 0.7 per cent. At that point, planning becomes a question of determining the optimum distribution of available funds among programs and potential recipients.

12.48 The Agency has developed a complex but well-conceived planning cycle which includes an annual review of long-term objectives and allocation of resources to the various program branches. This program planning process culminates in an Integrated Allocations Memorandum submitted to the Cabinet. Under the umbrella of the Strategy for International Development Cooperation 1975-1980 which states CIDA's policy plans, the Memorandum suggests appropriate shares for each of CIDA's programs and proposes planned expenditures for the next five years. Cabinet decisions are then incorporated into guidelines for preparing Program Forecasts and the annual Estimates.

12.49 In general, we found that the planning that led to preparing the Estimates was satisfactory. The Agency's policy plans, however, tended to be expressed in broad terms and it was difficult to trace the link between them and CIDA's operational and financial plans. We found that administrative budgets were not integrated with plans for aid disbursement.

12.50 Management of the aid program necessarily requires that the Agency conclude agreements which entail long-term obligations to support multi-year projects and the budgets of international institutions. Thus, expenditures planned for an Estimates-year must take into account the continuing obligations of previous years and the implications of new commitments for the future. These multi-year expenditure plans must be clearly known and closely controlled. The

Agency did not have proper procedures to update its obligations on projects and therefore, the current level of these obligations was not reflected in its overall financial planning.

Control of Commitments

12.51 As CIDA's major programs involve funding multi-year undertakings, the management of the Agency's commitments has particular significance. Since CIDA's commitments are the first step toward disbursing the funds authorized by Parliament, there is an obvious need for a system to record and control commitments in a clear, timely and accurate fashion, as required under the Financial Administration Act.

12.52 Recognizing this need, CIDA had distinguished several levels of commitments. The major levels represent those obligations resulting from:

- agreements made with recipient countries and other institutions for the provision of aid; and
- the signing of contracts for the purchase of goods and services required for aid projects.

12.53 We found that commitment control procedures were not consistently followed and noted cases where:

- Contrary to Treasury Board directives, agreements for projects with recipient countries were not made before CIDA's acceptance of commitments to purchase goods and services for the project. For example, an agreement with a recipient was concluded after CIDA had ordered foodstuffs valued at \$5.4 million.
- Commitments to purchase goods and services for individual projects exceeded authorized levels. Approval of increases was obtained after the fact.
- Expenditures incurred on projects exceeded the recorded commitments, even though all expenditures were supposed to be recorded as commitments at the time they were authorized. Because entries to commitment records could be initiated by over 100 project officers, there was no assurance that these records were being kept up to date to reflect total commitments.

Control of Disbursements

12.54 The Agency needs to improve its disbursement control procedures. For example, we identified instances of:

- payments requisitioned without proper certification under Section 27 of the Financial Administration Act;
- payments made at or near the end of the fiscal year without any evidence of receipt of goods or services;
- advance payments made to contractors, in some cases, for as much as 90 per cent of the contract value, without documented justification;
- payments made under loan agreements before the receipt of goods or services;
- contractual holdbacks released before satisfactory completion of the work; and
- progress payments made that had no relation to the percentage of work completed on the project.

Financial Reporting System

12.55 When CIDA was established, it inherited financial reporting systems from its predecessor, the External Aid Office. These systems were the Department of Supply and Services' computerized reporting system and a manual financial accounting and information system. A Financial Reporting System (FRS) was introduced in 1971 to mechanize basic accounting records and to improve control over commitments and expenditures being charged to appropriations and allotments. The data processing equipment was upgraded in 1974 and 1978. Accounting records are maintained manually for loans, interest and service charges receivable, and accountable and travel advances.

12.56 The Agency concluded that the FRS was not meeting user needs, particularly in the Bilateral Programs Branch. Thus, in 1977, it launched the Financial Accounting and Control System (FACS) Study to design a computer-based information system to satisfy management needs, as well as to complete development of a financial accounting and control system for implementation by April 1, 1978 to solve pressing short-term problems. It was found that FACS was not satisfactory and the study was abandoned in 1978, after expenditure of some \$400,000.

12.57 We found the Financial Reporting System inadequate because reports were untimely, unreliable and did not facilitate variance analysis. To generate the FRS reports, the Agency's accounting system required the processing of about 15,000 ledger cards four times each month. This excessive processing led to frequent errors. The equipment being used lacked the capacity to handle the volume efficiently. Because of the deficiencies in the system, the program branches had resorted to duplicate manual systems in planning and controlling the operations of particular projects.

12.58 Although progress has been slow, the Agency has begun to improve its financial management practices. CIDA is currently developing the Long Range Systems Plan, designed to identify Agency-wide systems requirements on a priority basis. In addition, the Comptroller General has completed an IMPAC survey and is assisting the Agency in preparing action plans for improvements to financial systems and controls.

12.59 *CIDA should continue its efforts to improve financial management and ensure that top priority is given to the completion and implementation of the Long Range Systems Plan and the action plans.*

Information for Parliament

Estimates

12.60 **Background.** Chapter 6 of our 1978 Report described the results of our government-wide study on the form of the Estimates. To illustrate the improvements suggested, we developed demonstration Estimates for six departments and agencies.

12.61 The Standing Committee on Public Accounts reviewed our findings and, in its Third Report to the House of Commons, dated March 23, 1979, made a number of recommendations for improving the form of the Estimates along the lines we suggested.

12.62 **Scope of audit.** We reviewed the adequacy of the information presented to Parliament in CIDA's 1978-79 Estimates, taking as a base the illustrations and recommendations referred to above.

12.63 **Observations.** A significant factor affecting CIDA's Estimates is that it has been obliged to obtain legal authority for its operations through appropriations acts, because there is no Act of Parliament establishing the Agency and delineating its authority. For example, in the 1979-80 Estimates, Vote L40 will appropriate \$1.00 to establish authority for a statutory item to purchase shares in the Inter-American Development Bank. The estimated cost of these shares is \$310 million (U.S.).

12.64 The present form of the Estimates is prescribed by the Treasury Board. We found several weaknesses in this format that limited CIDA's disclosure of information to Parliament:

- The present vote structure distinguishes between operating expenditures, grants and contributions, and loans. However, the

Agency currently operates with three programs branches and five support branches. The maintenance of this vote structure is inconsistent with the manner in which the Agency plans and monitors the total program.

- The Estimates show as sub-objectives the various forms of disbursing aid; that is, through the Bilateral, Multilateral and Special Programs Branches. The Estimates do not disclose the amounts being transferred to recipients, even though priorities are established in these terms.
- The Estimates do not indicate that food aid is administered by both the Bilateral and Multilateral Programs Branches.
- There are no narrative highlights or explanations of decisions underlying changes in the allocation of funds to geographic areas and sectors.
- Information about the purchase of shares in regional development banks does not disclose Canada's past investments in these banks or obligations to purchase additional shares in future years.
- No information is presented on the extent to which proposed spending is due to prior commitments.
- No information is presented to show the obligations to be met in future years.

12.65 We have provided CIDA with illustrative Estimates to suggest a number of alternatives that we believe would improve the disclosure of financial information to Parliament.

12.66 *In consultation with the Treasury Board, CIDA should review the form of the Estimates, with a view to improving the disclosure of information to Parliament.*

Public Accounts of Canada

12.67 As at March 31, 1979, the Public Accounts of Canada included special loan assistance to developing countries and international development associations amounting to \$2 billion. These loans, which are treated as an asset of the Government of Canada, are administered by CIDA.

12.68 The Report of the Auditor General on the Financial Statements of the Government of Canada for the year ended March 31, 1979 includes a reservation about the accounting policies of the Government regarding the reported value of

loans to developing countries and loans to and subscriptions in international development associations.

12.69 The Standing Committee on Public Accounts has requested the Office of the Comptroller General to expedite a study to establish an appropriate basis for determining the value of such loans and subscriptions and to report back to the Committee as soon as possible. This study had not been completed at the time this Report was written.

Contracting for Goods and Services

12.70 Background. During the last decade, an average of two-thirds of CIDA's total program expenditures was for goods and services. In 1978, as a result of CIDA's Corporate Review, the Agency consolidated all procurement activities under a Resources Branch.

12.71 Scope of audit. Our review of the procurement function included an examination of the systems and procedures followed by the Agency for procuring goods and equipment for aid projects. We also examined systems and procedures used to obtain the services of consultants and of advisers, experts and educators, referred to as co-operants, who provide technical assistance to recipients.

Contracting for Goods

12.72 Food aid. The Food Aid Co-ordination and Evaluation Centre is responsible for planning and co-ordinating food aid. Most of the food aid assistance is channelled through the Bilateral and Multilateral Programs Branches. Food aid administered by the Bilateral Programs Branch is normally the subject of a prior agreement between Canada and the recipient country. The Multilateral Programs Branch provides food aid in cash and foodstuffs to international organizations, primarily the World Food Program of the United Nations.

12.73 Within the Resources Branch, procurement and delivery of foodstuffs is the responsibility of the Materiel Management Division. The actual negotiation of procurement contracts with suppliers is carried out in all cases by agencies such as the Department of Supply and Services (DSS), the Canadian Wheat Board, the Canadian Dairy Commission and the Fisheries Prices Support Board. DSS is responsible for arranging shipping contracts, except for shipments to the World Food Program which has its own agents.

12.74 Our review revealed that the policies and procedures for food aid procurement were contained in several manuals, documents and directives which were at various stages of approval by senior management. There is no clear

definition and documentation of the roles and responsibilities of various units within CIDA that are involved in the total process.

12.75 During the last few years, there have been several conflicts between CIDA and other government procurement agencies when shipments were not completed properly. These included disputes over responsibility for late or damaged shipments. Instances of disagreement have occurred again in 1978-79 with losses to CIDA in excess of \$1.5 million. Several factors have contributed to these conflicts, such as:

- a lack of clear definition and understanding concerning the responsibilities of CIDA and those of agencies which procure foodstuffs on CIDA's behalf; and
- the failure of purchase orders to specify penalties for late shipments, inferior quality, improper packing, etc.

12.76 CIDA has followed the practice of making advance payments to some agencies before receipt of goods and has been reluctant to withhold payments owing to other government agencies, even where disagreements have arisen over delivery and quality. As a result, CIDA has had little leverage in negotiating an acceptable settlement of the disputes with the agencies involved.

12.77 In some cases, contrary to Treasury Board directives, foodstuffs were purchased without the prior conclusion of a memorandum of understanding with a recipient government. Also, no procedures existed to ensure adherence to the requirement of each purchase order that suppliers must not charge prices higher than international prices.

12.78 *CIDA should improve the procurement process for food aid by clearly defining the roles and responsibilities of all groups within the Agency and of other Canadian government agencies acting on its behalf.*

12.79 *CIDA should improve its food aid procurement procedure by ensuring that:*

- *appropriate penalties for unsatisfactory execution of purchase orders are stipulated;*
- *agreements with recipient countries are signed prior to procurement of foodstuffs from suppliers;*
- *payments are made to suppliers only after goods have been delivered according to specifications; and*

- *procedures are established to ensure that prices charged by suppliers are not higher than international prices.*

12.80 The procurement of equipment and materiel. Agreements for the support of bilateral assistance projects frequently require CIDA to procure equipment and materiel. Treasury Board directives require that government-to-government agreements be concluded before placing purchase orders for materiel and that the Canadian content of the overall project, excluding funds for local costs, is to be at least 66 2/3 per cent.

12.81 Under grant-funded projects, the procurement process for equipment and materiel begins with a detailed list of requirements and specifications prepared in almost all cases by Canadian consultants or recipient countries. This list and the specifications are approved by the project team leader at CIDA Headquarters who is required to request further reviews by technical experts (including those in the Resources Branch). The DSS unit of CIDA's Materiel Management Division prepares a formal purchase requisition for submission to DSS.

12.82 Under loan-funded projects, Canadian consultants or recipient countries prepare the equipment and materiel lists and specifications for CIDA's approval. The Canadian consultant carries out most tendering and purchasing, although a recipient country occasionally does this. The Canadian Commercial Corporation, using the services of DSS, undertakes some loan procurement under agreements which it makes with recipient countries.

12.83 Our examination revealed a number of weaknesses in the Agency's procurement practices:

- Purchase contracts were issued before agreements were concluded with recipient countries or were issued for amounts that exceeded the amounts specified in the agreements.
- In some instances, the total cost of purchase contracts exceeded approved project budgets, but there was no evidence that budget revisions were approved before completing the purchase contracts.
- Changes were made to purchase contracts without recording the reasons.
- Some purchase contracts were not reviewed by appropriately qualified officials.

12.84 We also found cases where contract terms were inadequate, in that suitable provisions were not included for:

- warranties in other countries;
- inspection of goods before shipment; and

- verification that goods were received in recipient countries according to specifications.

12.85 *CIDA should strengthen procedures for the procurement of equipment and materiel by ensuring that:*

- *costs of purchase contracts are properly related to project budgets and agreements with recipient countries on an ongoing basis;*
- *purchase contracts include adequate provisions for quality, packing, delivery, warranties, payments and inspections; and*
- *qualified officials carry out reviews of purchase contracts.*

Contracting for Services

12.86 CIDA contracts for a wide variety of services. These include consulting services in scientific, engineering, technical and other professional fields, and the services of experts, advisers and educators to be provided directly to recipients as technical aid. Experts include specialists in agriculture, aviation, banking, education, engineering, health and many other fields.

12.87 **Consulting services.** At March 31, 1979, the Agency had over 900 active consulting contracts for a total value of some \$585 million. During the 1978-79 fiscal year, 360 contracts were issued for a value of about \$95 million.

Our review of contracting for consulting services showed that:

- consultants were being used for long periods on full-time assignments of up to two or three years, with frequent amendments in small amounts to their contracts;
- a number of contracts did not follow the established procedures for preparation or review by the contracts section of the Resources Branch;
- the scope of work and the cost estimates of contracts were not satisfactorily defined and controlled by project leaders with the result that contracts were sometimes amended to double or triple the original amount;
- requests by project leaders for approval of increases in contracts were submitted so late that there was little option but to accept them; and
- there were no assessments of the performance of consultants on completion of contracts. The Agency is in the process of developing such procedures.

12.88 CIDA should improve its procedures for obtaining and administering consulting services with a view to providing more effective control. The procedures should ensure that:

- the practice of amending contracts is discouraged;
- better controls on the progress of contracts are instituted so significant cost overruns can be identified early and proper authorizations received; and
- the performance of consultants is assessed.

12.89 **The services of "co-operants".** Co-operants are selected either directly by CIDA or by an executing agency such as a Canadian university. Our review of contracting procedures used by CIDA to retain co-operants revealed a number of weaknesses, including:

- exceptions to established selection procedures;
- a lack of agreement between CIDA and the recipient country on the role of the co-operant; and
- a lack of guidelines for the negotiation of contracts with executing agencies to ensure consistency in calculation of fees and comparability of services provided.

12.90 We found that poor control was being exercised over the administration of contracts, resulting in:

- unjustified payments for salaries, overseas allowances, travel and rents;
- approval of contracts with co-operants before approval of project funding; and
- inadequate provisions for monitoring performance.

12.91 When retaining co-operants, CIDA should:

- consistently follow established procedures for their selection;
- obtain agreement from recipient countries on co-operants' roles and responsibilities; and
- improve its control over the administration of their contracts.

The Bilateral Programs Branch

12.92 Background. The Bilateral Programs Branch manages its operations through four geographic divisions and provides economic, technical and social development assistance to developing nations for constructing buildings and works, for acquiring machinery, equipment and supplies, and for undertaking technical, educational and social development projects. Branch expenditures, including food aid, amounted to \$2.7 billion over the five years from 1973 to 1978. Expenditures of \$3.8 billion are estimated for the next five years. In 1978-79, expenditures were \$566 million.

12.93 Scope of audit. We reviewed the Branch's management controls over projects and programs. We focused on project management systems and the Agency's procedures for measuring effectiveness. We studied some 40 projects in detail and conducted a file review of another hundred.

Project Management

12.94 Our audit revealed a number of deficiencies in the Branch's project management system. CIDA was aware of most of them and is in the process of developing and implementing corrective action. Though the total effect of these changes will be more apparent in future projects, the Agency has already begun to apply new approaches to current projects. Since some of the initiatives are still evolving, it is too early to attempt to judge their impact.

12.95 The main reason for the weaknesses noted during our audit was undoubtedly the lack of consistently applied methods of project planning and control. Appropriate methods have recently been identified, documented and communicated to project and planning officers. A review of recently initiated projects revealed that these new methods were not always followed. We also observed incidents where plans of operation had been prepared to achieve project approval but had not been followed during implementation. Some officers appeared insufficiently committed to using the project management tools and resources available to them. The Agency, however, is continuing a training program directed toward increasing the understanding by project officers of these new methods.

12.96 CIDA has established project teams made up of personnel from various branches, to provide the skills necessary to manage bilateral aid projects. A project team leader is assigned overall project management responsibility. Although the Agency had defined the roles and responsibilities of project team members, our review revealed that these were not being discharged on a consistent basis. Similarly, the membership of each project team had been documented; however, there was no documentation describing its make-up, the role of team members, or their working relationships. CIDA is aware of this problem and is implementing a new form of documentation aimed at resolving it.

Plans of operation did not indicate stages in the life of the project when the project team should meet to review progress. We observed that some project teams had not met for some time, and members were not always receiving or reviewing reports related to their area of expertise.

12.97 Projects are divided into three stages: planning and approval; implementation; and evaluation. Neither the assignment of team leaders nor changes in project leadership that frequently occurred was documented. The practice of changing leadership at the end of the planning and approval stage is unusual in the management of projects. When such a change is desirable, clear documentation of the project status is required to ensure that control and continuity are maintained.

12.98 *CIDA should ensure that project planning and control methods are effectively communicated and followed and that the roles and responsibilities of project team members are clearly defined, accepted and discharged.*

Planning and Approval of Bilateral Projects

12.99 **Background.** Formal requests for bilateral aid normally follow preliminary discussions between the country and the Canadian diplomatic post concerned. The post transmits the request to CIDA Headquarters along with its recommendations. At the exploratory stage, a team leader is appointed to take responsibility for the project and forms the project team. A preliminary analysis is made to establish the objectives, aims, type of work, possible time required and estimated cost. A Project Identification Memorandum is prepared and submitted to the Project Review Committee concerned with that geographic division for approval to continue the planning and development work.

12.100 If approval is received, the project's economic, management and technical viability are assessed and a preliminary plan of operation developed. Next, a Project Approval Memorandum is prepared and submitted to the Agency-wide Project Review Committee. The Memorandum subsequently passes through various levels of project approval, depending on the size of the project.

12.101 In January 1978, the Bilateral Programs Branch engaged the Bureau of Management Consulting (BMC) to assist planning officers and project leaders in developing plans of operations for about 1,000 projects. The arrangement with BMC has since been extended to include updating plans of operation and participating in project evaluation, project termination and additional management improvement activities, such as on-the-job training.

12.102 To improve project planning, CIDA re-organized and redefined the role of the Agency's Project Review Committee. In January 1978, it established the Resources Branch to improve co-ordination of technical resources at all

stages of projects, including planning. It also issued a directive in September 1978 stating that projects without plans of operation would no longer be approved.

12.103 Observations. Although standardized planning procedures have not been adhered to because they were not clearly documented, most projects examined were approved, even though they lacked satisfactory plans of operation. There were several instances of incomplete planning, including some where the objectives were vague or unquantified, the procedures for monitoring implementation were poorly defined and provisions for evaluating effectiveness were lacking. Even the feasibility studies were not always adequate. We observed, for example, that, during implementation of a particular project, it was necessary to overcome difficulties which should have been identified in the planning stage. In another project, implementation began before the reliability of the information had been verified. As a consequence, a considerable increase in cost and time occurred in both of these cases. CIDA is now documenting standardized planning procedures, including plans for reporting and control.

12.104 Improvements in planning and plans of operation were evident for projects approved after mid-1978. However, we noted that even these plans could have been more complete at the time of project approval. For example, most approved plans did not define precisely the responsibilities of project participants in accomplishing the project tasks, and evaluation plans were not appropriately determined. In addition, we noted that there was little documentation in the planning and approval stage of possible planning or implementation alternatives to assist in assessing the appropriateness of the course followed. Responsibility for monitoring the adequacy of these plans had been assigned in two of the four divisions, but this assignment had not been clearly documented. There was no monitoring of the adequacy of the plans in the other two divisions.

12.105 The Agency's Plans of Operation - A Guideline for Preparation, dated March 1979, directs that major CIDA cost items be shown and that project budgets be related to planned activities. In more than half of the projects reviewed that were subject to the new guidelines, budgets provided objects of expenditure information only and were not related to planned activities. Without such a relationship, the reporting of expenditures against budgets cannot be properly related to actual progress. CIDA procedures specify that important planning milestones be established and included in the plans of operation. At the time of our audit, plans of operations were not prepared until most planning milestones had passed. Measures taken by the Agency to have draft plans of operation prepared by the Canadian diplomatic posts should help to overcome this problem.

12.106 There appears to be some concern, both in the Canadian diplomatic posts and at CIDA Headquarters, about the length of time devoted to project planning. Since there was no system for monitoring and reporting progress in the planning phase, it was difficult to identify projects where planning was taking an unreasonable amount of time. Without such information, it is difficult to

determine the scope for improving the planning and approval processes or identifying reasons for delays.

12.107 *The Bilateral Programs Branch should intensify its efforts to document and implement standard planning procedures to:*

- *ensure that each plan of operation sets out precise project objectives, establishes control procedures, and defines a plan to evaluate the effectiveness of the project; and*
- *establish a standard system for monitoring the progress of all projects in the planning phase.*

Implementation of Projects

12.108 **Background.** After the planning phase and the approval of a project, the team leader is required to:

- obtain the recipient country's agreement to a Memorandum of Understanding or Loan Agreement specifying the commitments of CIDA and those of the recipient country;
- participate in the development of specifications for goods and services and in the negotiation of contracts; and
- supervise the project's implementation. Project supervision may be direct, through project managers or co-operants hired by CIDA for this purpose, or indirect, through Canadian firms and institutions, international organizations, or the recipient country.

12.109 To improve management control during implementation, the Bilateral Programs Branch recently established the position of Chief Operations Officer in each of the four divisions. This position has managerial responsibility for improving the application of consistent operational policies in the Branch.

12.110 **Observations.** The major weakness noted in the implementation phase related to project information and its flow, both to and from the field and within CIDA. We found that the information team leaders received during this phase was not adequate for the proper management of projects. For example, we noted a case where the field representative and the project team leader were unaware that an important part of a project had not been carried out according to plan and that equipment that should have been used for this purpose had been dismantled for spare parts. We also found that project progress was being measured against the most current plans of operation but there was no requirement to inform management of variations from the original plan. CIDA now requires this information. Furthermore, we concluded that financial management reports

received by team leaders were not adequate. Weaknesses in financial reporting were discussed in an earlier section of this Report.

12.111 As a minimum, team leaders require the following information:

- progress of the work in relation to amounts spent;
- budget variance at each stage;
- any slippage of the time schedule for each stage;
- results of reviews by independent observers; and
- comments and analysis on major problems.

The recently issued Guideline specifies these minimum information requirements.

12.112 Although plans of operation set out reporting procedures, the information required was not always clearly specified. In addition, many progress reports from contractors or CIDA agents implementing projects were not acknowledged or analysed.

12.113 Project team leaders have not been required to provide formal project status reports to management. As a result, it would have been possible for changes altering the cost or scope of the project to be made without the knowledge of management. Such changes were only brought to the attention of management when project funds were depleted and additional funding was required.

12.114 All project information should be stored and easily retrievable. The system for collecting, indexing and supplying information on each project was inadequate, especially in view of the turnover of staff on long-term projects. Bilateral Programs Branch management has directed that project binders include specific documents essential to the record of each project's history and progress. We noted that these binders either did not exist or were incomplete. The Agency has recognized this weakness and directed that all projects have binders with more complete data so that team leaders have accurate and up-to-date information. In addition, duplicate binders are to be provided to the Canadian diplomatic posts.

12.115 For large projects, we noted instances where cost estimates were not being periodically updated and reported to senior managers throughout the life of the project. Because this step was not always taken, management frequently did not become aware of potential cost overruns in time to take corrective action.

12.116 *The Agency should improve its project management information by:*

- *ensuring that the quantity and quality of information meets CIDA's requirements;*
- *ensuring that adequate and timely financial reports relating to projects are produced by the Comptroller's Branch; and*
- *implementing administrative procedures for large projects that will provide for the continued updating of the cost estimates.*

Effectiveness Evaluation

12.117 Background. The Bilateral Programs Branch provides development assistance and food aid assistance through projects. For program management purposes, these projects may be grouped by sector, region or country. CIDA refers to these groupings as "programs". The objectives of the projects are viewed as contributing to the objectives of specific "programs".

12.118 In May 1979, the Agency issued a policy directive which seeks to establish a comprehensive evaluation system for ensuring timely, reliable and cost-justified evaluations of effectiveness. The Bilateral Programs Branch has directed that an effectiveness evaluation plan be included in the plans of operation for each project.

12.119 Observations. Because the objectives of the Branch and the projects and programs it administers have not been precisely defined, effectiveness evaluation has been difficult. We noted that the relationship between objectives of programs and individual projects was often unclear. A more precise definition of the Bilateral Programs Branch objectives would provide needed direction to projects and programs. At present, CIDA's policy objectives are set out in such documents as the Strategy for International Development Cooperation 1975-80. The following paragraphs illustrate some of these policy objectives.

"The Canadian International Development Agency will focus its assistance to a greater extent on the most crucial aspects or problems of development - food production and distribution; rural development; education and training; public health and demography; and shelter and energy."

"The development assistance program will direct the bulk of its resources and expertise to the poorest countries of the world."

We believe that, in large part, it should be possible to assess the extent to which the Bilateral Programs Branch complies with these policy objectives. For example, an aggregation of aid projects by sector and by country would clearly show, in a given period, the degree to which aid was concentrated on the five aid areas stated above.

12.120 Systematic evaluation of the degree to which the Bilateral Programs Branch's activities comply with CIDA's policy objectives has yet to be developed. Since CIDA is reviewing its policy objectives at the present time, it would be appropriate for the Agency to try and express them in measurable terms to the greatest extent possible.

12.121 The Agency's Project Evaluation Manual sets out satisfactory methodology for evaluating projects. The successful application of this methodology, however, requires, among other things, the setting of precise project objectives, research design development and the identification and collection of data on project results. This has not always been done. Attempts have been made to evaluate very few projects. Although the evaluation designs were adequate, the evaluations suffered from a lack of objective data and from excessive reliance on subjective assessments.

12.122 CIDA's evaluation system has evolved in an ad hoc manner. There has been no clear identification of the responsibility for evaluating effectiveness or for ensuring the quality and cost-effectiveness of evaluations. Although CIDA has recently assigned to specific officers the responsibility for evaluating the effectiveness of individual projects, similar action has not been taken to provide for the evaluation of programs or to provide for an independent review of the quality and cost-effectiveness of these evaluation studies.

12.123 Since January 1978, plans of operation for all projects are required to include an evaluation plan at the time of project approval. Our audit revealed that there were no criteria for deciding when projects and programs should be evaluated, or what the scope of such evaluations should be. Such criteria would help to identify projects that should be evaluated for effectiveness and the specific areas to be covered. In their current form, country program reviews and updates are not adequate effectiveness evaluations.

12.124 *Programs and projects should be designed by the Bilateral Programs Branch in such a way as to facilitate effectiveness evaluation. Objectives should be described precisely and, where possible, in a manner that lends itself to quantifiable measurement. The relationship between project and program objectives should be clear. Then, based on predetermined criteria, the Bilateral Programs Branch should decide when evaluations should take place and should determine the scope of the evaluations.*

The Multilateral Programs Branch

12.125 Background. The Multilateral Programs Branch is responsible for providing Canadian loans, grants and contributions to support development

programs of the United Nations and other international development institutions. It also provides investment capital to selected international financial institutions. The funding is provided to the recipient agency's general budget rather than to the particular development assistance projects these agencies carry out.

12.126 The Multilateral Development Assistance budget, representing approximately 30 per cent of CIDA's total budget, was set out as follows in the Main Estimates for 1978-79:

	<u>Food Aid</u>	<u>U.N. Agencies (thousands of dollars)</u>	<u>Financial Institutions</u>	<u>Total</u>
Grants/Contributions	106,000	96,417	3,500	205,917
Loans	-	-	77,200	77,200
Investments	<u>-</u>	<u>-</u>	<u>14,637</u>	<u>14,637</u>
	<u>106,000</u>	<u>96,417</u>	<u>95,337</u>	<u>297,754</u>

Under the direction of a Vice-President, the Multilateral Programs Branch has two divisions: United Nations Programs Division and International Financial Institutions Division. The Food Aid Co-ordination and Evaluation Centre is also located within the Branch.

12.127 Over the five years from 1973 to 1978, the Branch has disbursed some \$980 million. Approximately \$297 million was spent in 1978-79. Expenditures of \$1.7 billion are forecast for the next five years.

12.128 In addition to the external factors affecting the operation of the Agency noted in paragraph 12.13, the fact that the Multilateral Programs Branch shares program responsibility with other departments has an impact on its operations. For example, it shares responsibility with the Department of Finance for the International Development Association/World Bank Group, and with the Department of External Affairs for the UN High Commissioner for Refugees. The Multilateral Programs Branch is also a member of the multilateral aid sub-committee of the Interdepartmental Committee on Development Assistance (ICDA). The sub-committee meets regularly to discuss the level and direction of Canadian multilateral aid. The Committee includes representatives from most departments with an interest in multilateral aid.

12.129 After a review of past commitments and current budgetary requirements of individual UN agencies, the initial determination of amounts to be contributed results from discussions between officers responsible for particular programs and the Branch Director. Other members of the Branch may comment on the levels agreed upon. The amounts suggested are also circulated for

comment to the members of the ICDA sub-committee. Amounts for the support of financial institutions are determined in a similar fashion; however, a more detailed analysis is conducted because the annual allocations involve substantial amounts of funds and are related to multi-year commitments.

12.130 Scope of audit. Our study examined CIDA's contributions to seven agencies, accounting for \$75.7 million or 39 per cent of the Branch's budget in 1978-79, excluding food aid. We examined CIDA's support to the following groups:

- United Nations Development Program;
- United Nations High Commissioner for Refugees;
- Onchocerciasis (river blindness) Control Program;
- International Institute for Educational Planning;
- Commonwealth Fund for Technical Cooperation;
- Asian Development Fund; and
- Special Development Fund (sponsored by the Caribbean Development Bank).

12.131 Observations. Multilateral assistance is undertaken for multi-year periods, particularly for funds given to the regional development banks. This limits the degree of latitude available for altering the size of the annual budgets. The clear identification of commitments and obligations is important because of the way they limit the Agency's options. For example, to meet the budgetary reductions imposed during 1978-79, the Branch identified the degree of possible flexibility by defining legal commitments (level 1), moral commitments (level 2), and new proposals (level 3), as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	(thousands of dollars)			
International Banks	239,220 (86%)	29,500 (11%)	8,700 (3%)	277,420 (100%)
UN Agencies	<u>13,515</u> (11%)	<u>101,845</u> (83%)	<u>7,200</u> (6%)	<u>122,560</u> (100%)
TOTAL	<u>252,735</u> (63%)	<u>131,345</u> (33%)	<u>15,900</u> (4%)	<u>399,980</u> (100%)

12.132 Considerable information is available from multilateral agencies. However, there were no guidelines on the information required regularly from individual agencies, analysis and storage methods, responsibility for obtaining the

information, or the form in which it is to be retained as part of a program memory. The Multilateral Programs Branch had not documented its internal operating procedures or policies to assist in the more effective management of its funds.

12.133 Because CIDA provides financial support to international organizations responsible for their own programs, it has limited control over the effectiveness of their activities. It is now conducting a limited assessment of the organizational capability of the multilateral agencies to which Canada provides funds. The evaluation procedures consist of the completion of a questionnaire by CIDA program officers, a review of documents and previous assistance experience with the agency, and in some instances, site visits. The cost of this procedure appears to be reasonable in relation to the benefits being received.

12.134 Efforts were being made to improve the reliability of the questionnaire and to integrate effectiveness information into CIDA's process for the allocation of program funds. The questionnaire would be more useful if:

- the objectives of CIDA's multilateral programs were stated with the precision necessary for evaluation;
- the relationship between the content of some sections of the questionnaire and CIDA's objectives for multilateral aid were clearly established;
- the information required to support the judgments of program officers when completing the questionnaire was clearly identified;
- the use to be made of the evaluations by the Interdepartmental Committee on Development Assistance (ICDA) was determined; and
- methods were established for taking into consideration evaluations conducted by the international agencies themselves.

12.135 CIDA has been encouraging international agencies to improve their internal capabilities for evaluating the effectiveness of programs and projects. The Agency could improve its ability to monitor the performance of recipient organizations if guidelines were established for the type and quantity of information required on an annual basis.

12.136 *CIDA should continue its efforts to improve the reliability of the questionnaires it is using to evaluate the effectiveness of its programs and should establish procedures to ensure that the results of these evaluations are considered in the allocation of program funds.*

12.137 As a regular part of its budgetary planning, CIDA should analyse the degree and nature of its prior obligations in allocating funds to new or existing international programs so that the long-term financial implications of funding decisions are clearly known and disclosed.

12.138 Operating procedures should be established, including guidelines regarding information to be retained for financial analysis purposes and means for systematically monitoring multilateral programs.

The Special Programs Branch

12.139 Background. The Special Programs Branch is responsible for development assistance, mostly in the form of contributions, to a variety of Canadian and international non-governmental organizations. Additionally, it makes contributions to Canadian firms which conduct feasibility studies to identify business opportunities in developing countries.

12.140 The Branch's development assistance budget, representing approximately six per cent of the total CIDA budget, is set out in the following table.

<u>Divisions</u>	<u>1978-79</u>	<u>1977-78</u>
	(thousands of dollars)	
Canadian Non-Governmental Organizations	54,855	49,916
International Non-Governmental Organizations	2,800	2,750
Industrial Cooperation	<u>1,080</u>	<u>755</u>
	<u>58,735</u>	<u>53,421</u>

12.141 To assist CIDA in identifying the non-governmental organizations it will support, information is required on their history, background, financial capabilities, senior personnel, and so on. As CIDA contributions are for specific projects, the Agency also requires detailed information on project plans, budgets and source of funds. The Branch has identified the information it requires and does not appear to have difficulty in obtaining it from potential recipients.

12.142 Non-governmental organization (NGO) projects are approved within CIDA in accordance with a delegation of authorities document which sets out the respective financial authorities of officers, the President, the Minister and the

Treasury Board. The approval process includes reviews by various committees. On receipt of a project application from an NGO, a program officer and a section manager appraise it for completeness. To ensure proper co-ordination, the application is then sent to the Bilateral Programs Branch and, if appropriate, to other branches and relevant Canadian diplomatic posts abroad. The proposed project is sometimes referred to a Divisional Geographic Committee to guard against double funding and duplication of projects. A Pre-Project Review Committee and an NGO Project Review Committee review projects in excess of \$100,000.

12.143 Scope of Audit. Because they account for the major portion of the Branch's activities, our audit focused on the programs of the Canadian Non-Governmental Organizations Division. We examined procedures for determining the allocation of its funds and for monitoring the organizations and projects it is supporting.

12.144 Observations. The Special Programs Branch can only exercise limited control over the use made of the public funds for which it is responsible because of its practice of non-interference in the operations of the organizations it supports. Nonetheless, we believe that improvements can be made in the control it does exercise.

12.145 For example, we noted the following deficiencies in the project approval and selection process:

- the Branch had not completed the documentation of internal procedures for selection and approval of organizations and projects;
- information from Canadian diplomatic posts relating to projects was often inadequate or was not forthcoming; and
- the full potential of the Divisional Geographic Committee was not being realized because all projects were not referred to the appropriate Committee, to guard against duplication of projects and double funding.

12.146 When a project is approved, CIDA and the NGO conclude an agreement in which the Agency specifies the terms and conditions attached to its contributions. Treasury Board Circular 1977-50 provides the minimum terms and conditions that must be included in each agreement, which dictates to some degree the nature and extent of any subsequent monitoring of the project by CIDA. We noted, however, that this had not been formally documented within the Branch.

12.147 All agreements with NGOs require recipients to submit periodic progress and financial reports. The Agency had not determined the information it

required in these reports or established procedures to ensure that they were received on time. When an NGO is in contravention of its agreement, CIDA can withhold support.

12.148 Treasury Board directives specify that the Special Programs Branch is responsible for establishing in agreements with recipients the Government's right to audit the use made of its contributions and to define the nature and scope of audits conducted by third parties. This requirement stems, in part, from government-wide policies regarding the audit of contributions.

12.149 Even though audited statements are normally received from NGOs, these do not contain information on individual projects. In addition, project funds are frequently transferred by Canadian NGOs to their local counterparts who maintain detailed records and act as project managers, increasing the difficulty of obtaining information on the projects concerned. Although the right to conduct an audit must always be specified, it may be unnecessary to conduct detailed audits of all projects, given the basic objective of non-interference in the operations of the recipients.

12.150 Within the context of the Treasury Board directive, CIDA has several options open to it regarding the extent of verification that can be demanded. They range from simple acceptance of reports to supporting statements from the organizations' auditors to complete audits by government auditors.

12.151 During 1978-79, the audit activity relating to NGOs was limited to the operational audits of 15 projects by the Operational Audit Division and to the Branch's requirement for receipt of annual audited financial statements from Canadian NGOs. We found that these activities were insufficient to meet the Treasury Board requirements because:

- annual audited financial statements from Canadian NGOs did not identify individual projects supported by CIDA;
- financial audits of projects were not conducted by CIDA; and
- independent audits of certain projects had not been considered.

In addition, no basic plan had been developed for selecting contributions to be audited and determining the nature, scope and timing of audits.

12.152 *For all projects, the Agency should establish clear procedures to ensure:*

- *a consistent and systematic process for their selection and approval; and*

- *prevention of double funding and duplication of projects.*

12.153 *The Agency should clearly determine the information it requires from the recipient organizations concerning the projects it is supporting and should ensure that it is received on a timely basis.*

12.154 *The Agency should establish an appropriate audit plan for the non-governmental organization projects, encompassing both operational and financial audits.*

Payroll Costs Management

12.155 **Background.** In 1978-79, CIDA's payroll costs amounted to approximately \$25 million. The Main Estimates showed 969 authorized person-years, excluding co-operants and consultants. Total manpower consisted of Headquarters's staff, field representatives at Canadian diplomatic posts, and co-operants and consultants assigned to aid projects.

12.156 Co-operants and consultants may report to CIDA's field representatives, Agency project officers at Headquarters, or to officials of the recipient government.

12.157 **Scope of audit.** We examined three aspects of payroll costs management in CIDA -- manpower planning, training and development, and human resource information systems.

12.158 Our manpower planning review included an examination of the Agency's methods for determining human resource requirements. The training and development audit reviewed systems for identifying needs, for planning and evaluating training programs and for identifying and recording costs. Information systems were examined to determine whether they met managers' needs in a timely, accurate and economical manner.

12.159 **Manpower planning.** Determining the personnel required to administer Canada's development assistance program is not a simple task because of the size, complexity and responsive nature of the program and because of the difficulties that exist in objectively determining appropriate links between resource requirements and program results. However, both CIDA's 1976 Corporate Review and the results of the 1978-79 government-wide budget restraint reviews emphasized the need for an effective manpower planning process.

12.160 We found that the Agency did not plan for its human resource requirements in a systematic manner. The manpower work plans examined were generally unsatisfactory because they defined the workload poorly, ignored the contribution of personnel in Canadian diplomatic posts, and lacked an adequate link to project plans. As a result, the Agency did not know with any reasonable certainty how many people it required to carry out its programs.

12.161 CIDA has many components of manpower planning, such as a manpower inventory and a performance appraisal process. In its plans for improvement, CIDA is placing emphasis on collecting historical data on personnel utilization; developing a more comprehensive manpower inventory; improving performance appraisals; defining a senior officer career plan; and developing a rotational field representative service. However, manpower planning will not be effective until these improvements have been implemented and there is an appropriate link between manpower and project plans.

12.162 Training and development. CIDA has attached considerable importance to its training program in the last three years. Four training officers and two support staff have been assigned to staff planning and development and have been attached to individual branches. However, responsibility for developing training policies had not been clearly defined and there was no mechanism for establishing training priorities. The Agency is planning to establish an Advisory Committee for Training and Development to address these problems.

12.163 Evaluation of training programs was weak because it was carried out by employees rather than by both the employees and their supervisors. Similarly, employees rather than supervisory personnel identified training needs. The Agency was not assessing training needs and benefits against criteria that were related to desired changes in job performance.

12.164 Human resource information systems. CIDA has five personnel information systems, three relating to Agency employees and two to experts and consultants. We concentrated on the Staff Reporting System (SRS), the only one containing information about headquarters employees and field representatives.

12.165 Although the SRS satisfied the requirements of central agencies for personnel reports, it did not provide the information needed by managers. For example, the present SRS did not provide data on education and work experience, performance or promotion potential. As a result, managers maintained their own manual records. CIDA is conducting needs and cost-benefit analyses in support of plans to enhance the SRS.

12.166 *CIDA should improve its manpower planning procedures by developing a work planning process that will relate the determination of personnel requirements to project plans.*

12.167 *CIDA should clearly define responsibility for determining, implementing, and controlling training and development requirements. The Agency should assess training benefits against established criteria.*

Internal Audit

12.168 Background. The Operational Audit Division is responsible for all internal audits in CIDA. The Division's Director General reports to the President through an Audit Committee chaired by the Senior Vice-President. He also has direct access to the President on issues which he considers to be of major importance. The Division carries out project and management audits and obtains the services of the Audit Services Bureau of DSS for financial audits. In 1978-79, the Division had a budget of \$593,000 and a staff of 16.

12.169 The project audits assess the operational and administrative procedures for individual projects. Management audits focus on the adequacy and application of operational systems within Branches and Divisions. The financial audits evaluate the adequacy of financial systems and controls, including the safeguarding of assets.

12.170 Scope of audit. We reviewed the Division's role, its use of resources, audit planning, audit practices and reporting procedures.

12.171 Observations. Although the quality of work performed and the reporting of audit findings by the Operational Audit Division have been satisfactory, we concluded that the Division's activities have not provided the President with enough information to assist him in the overall management of CIDA. There was incomplete audit coverage of the Agency's operations and a lack of established methods and procedures for planning and monitoring audit assignments. Also, until recently, there was an absence of procedures for prompt action on audit findings. For these reasons, we concluded that the internal audit work was not sufficient to materially affect the nature, timing and extent of our audit work.

12.172 Organization of the internal audit function. The Audit Committee is required to review the findings and recommendations of all audits. However, during the 18-month period ending March 31, 1978, it had reviewed only 9 out of 60 project audit reports and none of the 10 financial audit reports issued by the Division. Improvements in the operations of the Audit Committee were noted during 1979, in that a significantly greater proportion of audit reports had been reviewed.

12.173 The Committee has also recently established a procedure for timely communication of audit recommendations to the operational managers and a

procedure for subsequent follow-up. However, the Committee has not yet fully documented all decisions made concerning audit scope, observations and plans of action.

12.174 *The Audit Committee should ensure that it reviews all audit reports and should maintain a complete record of decisions made at Committee meetings.*

12.175 **Audit planning.** The Operational Audit Division started operations in 1973. Since then, the Division has been concentrating its efforts on the audit of individual projects. As a result of representations by Treasury Board and recommendations from this Office, the Division recently gave priority to the audit of financial and management systems, and a three-year plan for financial audits has been prepared. In recent years, there have been improvements in both the quality and quantity of audits.

12.176 The expansion in the scope of audit work has come about without a process for identifying all systems, programs and projects as potential candidates for audit. The Division has not yet established proper criteria for selecting areas to be audited. For example, no consideration has been given to such factors as potential risk, management needs, materiality or cost-effectiveness.

12.177 The Division had no comprehensive audit plan to enable it to assess the adequacy of its resources and control its activities. Such a plan, which normally would be prepared on an annual basis, would indicate the audit coverage, scope, objectives, time budget and personnel requirements. There was no time reporting system through which control of audit assignments could be exercised. The Division had not assessed its training needs and its staff members received no formal training.

12.178 *The Division should develop criteria for the selection, scope and timing of audits, and ensure that all systems, programs and activities of the Agency are included as potential candidates for audit.*

12.179 *The Division should include in its annual work plan identification of audit coverage, scope, objectives, time-budgets, personnel requirements, etc.*

12.180 *The Division should establish its requirements for resources in relation to its audit plan, implement a time-reporting system to control the use of division staff, and develop a training program.*

12.181 **Audit practices.** Divisional managers in the Operational Audit Division did not review working paper files prepared by project auditors. However, they did review in detail the final reports on the project audits. The Division did not

have a systematic means of ensuring that standard audit procedures were being followed or that all significant matters were reported with evidence documented in supporting working papers.

12.182 The Division has recently instituted procedures intended to ensure completion of the audit report within a month of the end of an audit. This will eliminate the previous delays of six to eight months in issuing audit reports. We also noted improvements in distributing audit reports to programs branches; however, relevant observations and recommendations were still not being sent to CIDA's field representatives whose operations had been the subject of a field audit.

12.183 *The Division should establish procedures for the review of working papers to ensure the quality of audit reports.*

12.184 *Audit observations and recommendations relating to CIDA's operations abroad should be sent to the appropriate field representatives.*

Follow-up on Prior Years' Observations

12.185 During our audit, we followed up on a project involving capital and technical assistance in fisheries training methods for the Republic of Colombia, commented on in our 1976 Report. The project funding approved by the Minister in January 1973, plus subsequent additions, included \$308,000 for the purchase and modification of a fishing vessel. By March 31, 1976, costs of approximately \$665,000 had been incurred for acquisition and modification of the vessel. In April 1976, the Republic of Colombia refused to accept the vessel due to its instability and unsuitability for the project.

12.186 CIDA decided, after considering alternatives, to carry out additional work on the vessel in order to obtain acceptance. As a result, during the period March 1976 to June 1979, additional expenses of \$745,000 were incurred for repairs, modifications, equipment, stability tests and hiring of crew, bringing the Agency's total cost for the vessel to \$1.4 million.

12.187 In July 1976, ministerial approval was received for additional funds of \$3.5 million for the project, including \$2 million for the purchase and modification of another fishing vessel. The second fishing vessel has not been acquired, and approximately \$720,000 of the additional funds have been used for costs related to the original vessel. In 1978, the Colombian Government again refused to accept the vessel and the Agency is currently considering alternative courses of action.

Summary of Recommendations and Agency's Comments

Recommendations

Agency's Comments

Financial Management

- 12.59 CIDA should continue its efforts to improve financial management and ensure that top priority is given to the completion and implementation of the Long Range Systems Plan and the action plans.

Agreed. Phases I and II of the Long Range Systems Project will produce, by January 1980, action plans for the development of systems modules which will progressively respond to the Agency's management information needs (including financial management) throughout 1980 and 1981.

Information for Parliament

- 12.66 In consultation with the Treasury Board, CIDA should review the form of the Estimates, with a view to improving the disclosure of information to Parliament.

Agreed. As soon as Treasury Board has established the guidelines and parameters for changes in the form of Estimates for the government as a whole, a review of the Agency's Vote/Program/Activity structure which is already in planning will be launched.

Contracting for Goods and Services

- 12.78 CIDA should improve the procurement process for food aid by clearly defining the roles and responsibilities of all groups within the Agency and of other Canadian government agencies acting on its behalf.

Although roles and responsibilities are clearly stated, CIDA will strive for better comprehension and enforcement of such roles and responsibilities with regard to other Canadian government agencies.

- 12.79 CIDA should improve its food aid procurement procedure by ensuring that:

- appropriate penalties for unsatisfactory execution of purchase orders are stipulated;

CIDA will attempt to ensure that other government departments and agencies carrying out procurement on behalf of CIDA make provisions for appropriate penalties when contracting out for commodities. Ultimate responsibility for compliance with this recommendation, in most cases, rests with other government departments and agencies.

Recommendations

Agency's Comments

- agreements with recipient countries are signed prior to procurement of food-stuffs from suppliers;

The Agency agrees with such recommendations.

- payments are made to suppliers only after goods have been delivered according to specifications; and

With regard to goods supplied by the private sector, CIDA agrees with the recommendation. When goods are obtained through other government departments or agencies, CIDA will seek modifications in existing practices. In the area of ocean shipping, CIDA has no alternative but to abide by rules and conditions applied worldwide by the shipping trade.

- procedures are established to ensure that prices charged by suppliers are not higher than international prices.

Government departments and agencies acting on behalf of CIDA are responsible for ensuring that prices charged by suppliers are not higher than international prices. We will therefore seek from them certification to this effect.

12.85 CIDA should strengthen procedures for the procurement of equipment and materiel by ensuring that:

- costs of purchase contracts are properly related to project budgets and agreements with recipient countries on an ongoing basis;

Agreed. The basis for this procedure is established and will become fully operational as the financial systems are in place to provide for project budgeting by component and related activities rather than by project only.

- purchase contracts include adequate provisions for quality, packing, delivery, warranties, payments and inspections; and

CIDA will ensure that such provisions are inserted by DSS and procurement agents on contractual documents when purchases are effected by procurement agents. CIDA will monitor procurement activities by other departments and agencies to ensure compliance with the recommendations.

- qualified officials carry out reviews of purchase contracts.

CIDA will strive for closer reviews of purchase contracts by assigning sectoral specialists to these tasks.

<i>Recommendations</i>	<i>Agency's Comments</i>
<p>12.88 CIDA should improve its procedures for obtaining and administering consulting services with a view to providing more effective control. The procedures should ensure that:</p> <ul style="list-style-type: none"> - the practice of amending contracts is discouraged; - better controls on the progress of contracts are instituted so significant cost overruns can be identified early and proper authorizations received; and - the performance of consultants is assessed. 	<p>Agreed.</p> <p>Agreed. The basis for this procedure is established and will become fully operational as the financial systems are in place to provide for project budgeting by component and related activities rather than by project only.</p> <p>CIDA had already initiated the process and will follow it through to completion.</p>
<p>12.91 When retaining co-operants, CIDA should:</p> <ul style="list-style-type: none"> - consistently follow established procedures for their selection; - obtain agreement from recipient countries on co-operants' roles and responsibilities; and - improve its control over the administration of their contracts. 	<p>Agreed.</p>

The Bilateral Programs Branch

<p>12.98 CIDA should ensure that project planning and control methods are effectively communicated and followed and that the roles and responsibilities of project team members are clearly defined, accepted and discharged.</p>	<p>Agreed. The Planning Chapter of the Bilateral Project Management Manual (BPMM) has been circulated in preliminary form to all Area Divisions. Project Plans of Operation have been institutionalized and quality control programs are being implemented. A directive on the composition, roles and responsibilities of the project team has been promulgated.</p>
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Recommendations

Agency's Comments

12.107 The Bilateral Programs Branch should intensify its efforts to document and implement standard planning procedures to:

- ensure that each plan of operation sets out precise project objectives, establishes control procedures, and defines a plan to evaluate the effectiveness of the project; and
- establish a standard system for monitoring the progress of all projects in the planning phase.

Agreed. Logical Framework Analysis (LFA) has been strengthened by the Plans of Operations (POP). Together they record more precise data for objectives, controls and evaluation requirements.

Agreed. The more detailed planning procedures in the revised BPMM will permit better monitoring of planning. In addition, the Financial Reporting System (FRS) is being improved for better financial monitoring. However, lack of administrative and financial resources hinders monitoring of projects in the field.

12.116 The Agency should improve its project management information by:

- ensuring that the quantity and quality of information meets CIDA's requirements;
- ensuring that adequate and timely financial reports relating to projects are produced by the Comptroller's Branch; and
- implementing administrative procedures for large projects that will provide for the continued updating of the cost estimates.

Agreed. The undertaking by the Management Advisory Committee on Information Processing (MACIP) of the Agency to produce a Long Range Systems Plan was to ensure among other things that the quantity and quality of information for project management would meet CIDA's requirements including such functional management information sub-sets as project financial reports and project cost updates.

Agreed. Such procedures are being developed in light of recent TB directives.

Recommendations

Agency's Comments

12.124 Programs and projects should be designed by the Bilateral Programs Branch in such a way as to facilitate effectiveness evaluation. Objectives should be described precisely and, where possible, in a manner that lends itself to quantifiable measurement. The relationship between project and program objectives should be clear. Then, based on predetermined criteria, the Bilateral Programs Branch should decide when evaluations should take place and should determine the scope of the evaluations.

Agreed. At the project level, the Bilateral Branch has established a system to evaluate the effectiveness and impact of individual resource transfers in compliance with general Agency guidelines in response to the T.B. Directive of May 1977. The ongoing country program cycle will accord greater resources and priority to program evaluation. Specifically, the LFA and the POP are lending greater precision to the describing of project objectives. At present, planning procedures in the BPMM and project approval process require projects to be related closely to the attainment of program objectives. The revised procedures will retain and strengthen this inter-relationship. The scope and depth of evaluation is determined at the planning stage and provision is made at that time for the resources to carry out evaluations at the appropriate time. The Agency Evaluation System (AES) and Bilateral Evaluation Sub-system (BES), as well as the annual Work Plan, provide an inventory of projects and programs to be evaluated.

The Multilateral Programs Branch

12.136 CIDA should continue its efforts to improve the reliability of the questionnaires it is using to evaluate the effectiveness of its programs and should establish procedures to ensure that the results of these evaluations are considered in the allocation of program funds.

Agreed. The Agency will continue to improve the reliability of evaluation methodologies and seek to ensure that evaluated effectiveness is considered in the allocative process.

Recommendations

Agency's Comments

12.137 As a regular part of its budgetary planning, CIDA should analyse the degree and nature of its prior obligations in allocating funds to new or existing international programs so that the long-term financial implications of funding decisions are clearly known and disclosed.

Agreed. All programs are being reviewed to detail existing and to indicate clearly long-term financial implications.

12.138 Operating procedures should be established, including guidelines regarding information to be retained for financial analysis purposes and means for systematically monitoring multilateral programs.

Agreed. Information for program monitoring purposes already reviewed by the Agency is substantial. The Agency will continue to establish improved procedures for these purposes.

The Special Programs Branch

12.152 For all projects, the Agency should establish clear procedures to ensure:

- a consistent and systematic process for their selection and approval; and
- prevention of double funding and duplication of projects.

Agreed. The NGO Operations Manual is being revised and will help to implement these recommendations.

Agreed. The Geographic Committees will review all projects to prevent duplication and double funding.

12.153 The Agency should clearly determine the information it requires from the recipient organizations concerning the projects it is supporting and should ensure that it is received on a timely basis.

Agreed. Revised project submission and report forms for projects under \$100,000 are now in use. Furthermore, the Letter of Agreement with recipient organizations stipulates that payments will be made only on receipt of satisfactory reports. A project submission form for projects over \$100,000 is being prepared.

Recommendations

Agency's Comments

- 12.154** The Agency should establish an appropriate audit plan for the non-governmental organization projects, encompassing both operational and financial audits.

Agreed. This is being done by the Operational Audit Division.

Payroll Costs Management

- 12.166** CIDA should improve its manpower planning procedures by developing a work planning process that will relate the determination of personnel requirements to project plans.

The Agency agrees that it should improve the procedures for determining exact personnel requirements. To this end it has launched an A-base expenditure review which by the end of December 1979, will provide objective analyses of the human resource requirements of all Agency activities. In addition, the Agency has developed a model for determining the staffing requirements of all field office activities.

- 12.167** CIDA should clearly define responsibility for determining, implementing, and controlling training and development requirements. The Agency should assess training benefits against established criteria.

The Agency concurs on the importance of this recommendation. New training and management development policies have been introduced which will provide the essential rationale and provide the basis for the control mechanisms necessary.

Internal Audit

- 12.174** The Audit Committee should ensure that it reviews all audit reports and should maintain a complete record of decisions made at Committee meetings.

Agreed. A procedure has been established to review reports and record decisions.

- 12.178** The Division should develop criteria for the selection, scope and timing of audits, and ensure that all systems, programs and activities of the Agency are included as potential candidates for audit.

Agreed. Selection criteria for project and financial audit activities have been developed and implemented. Systems audits are also being conducted for the purpose of identifying activities, the selection of priorities as well as for audit planning. Draft lists of the Agency systems and activities for potential audit are being developed.

Recommendations

Agency's Comments

- | | |
|---|---|
| 12.179 The Division should include in its annual work plan identification of audit coverage, scope, objectives, time-budgets, personnel requirements, etc. | Agreed. Plans are in place based on the present availability of resources. |
| 12.180 The Division should establish its requirements for resources in relation to its audit plan, implement a time-reporting system to control the use of division staff, and develop a training program. | Agreed. Draft plans have been developed. However, due to current resource restraints, their implementation is limited. |
| 12.183 The Division should establish procedures for the review of working papers to ensure the quality of audit reports. | Agreed. This has been included in the draft internal procedural manual and will be implemented. |
| 12.184 Audit observations and recommendations relating to CIDA's operations abroad should be sent to the appropriate field representatives. | Agreed. Abstracts of observations pertinent to the needs of the field representatives will be included in the distribution of data on a "need-to-know basis". |

President's Comments

Reproduced on the following pages is the complete text of a letter dated October 22, 1979, from the President of the Canadian International Development Agency in response to our request for his comments on the recommendations included in this Chapter.



Canadian International
Development Agency

Agence canadienne de
développement international

President

Président

October 22, 1979

Mr. James J. Macdonell
Auditor General
Office of the Auditor General
of Canada
240 Sparks Street
Ottawa (Ontario)
K1A 0G8

Dear Mr. Macdonell,

In responding to your invitation to comment on the 1979 comprehensive audit of CIDA, I wish to begin by expressing my sincere appreciation for the quality of the work achieved by the people concerned in your office, and for the attention given to this audit by your senior colleagues and by yourself personally. The task was in several respects a difficult one.

First, I understand that comprehensive auditing is a fairly new and challenging innovation which you are still in the process of developing. Second, CIDA is currently undergoing profound changes. New corporate structures are being put into place; new management and control systems are being developed and introduced. Some are operational; others are still being tested or designed. A static picture of the Agency would therefore have been misleading. Thirdly, as this is the first comprehensive audit on CIDA, no earlier benchmark is available for measuring accurately the progress achieved and the rate of change. Many system improvements have been introduced so recently that it is not yet possible to evaluate them by their results.

In these circumstances, I am therefore particularly pleased to confirm that I am in broad agreement with the identification in your report of certain weaknesses in the managerial and control systems of the Agency. I am also in broad agreement with your recommendations. The summary of the report states that "Although weaknesses continue to exist throughout the

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Agency's operations, management is aware of them and is developing or implementing corrective action". It is heartening to me that the remedial measures undertaken by CIDA's management should so closely fit the thrust of your own recommendations. Indeed, action has already been initiated on virtually all of them.

Since the completion of your audit, a number of further corrective measures have been taken in CIDA:

- i) A-Base Review: An A-Base Expenditure Review was initiated in June 1979 to make it possible to establish guidelines for allocating resources in accordance with changes in the organizational structure and the present and future scope of CIDA's programs.
- ii) Work Planning: As a result of the A-Base Review the work planning process of the Agency will be expanded to incorporate the allocation of resources required to perform efficiently the activities of each responsibility center, thus providing each level of management with an explicit resources framework within which he must operate.
- iii) Planning Process: Since in the Spring of 1979, a thorough review of the planning cycle and its constituting elements at Corporate level has been underway with a view to stream-lining the decision-making process of senior management.
- iv) Financial Control: In June 1979, the Agency moved to coordinate financial information through the Financial Management Advisors to provide both a single set of agreed figures for Agency management and a basis for future systems development.
- v) Control of Expenditures in the Field: Since July 1979, training teams have been converting the post accounting system for Aid Expenditures abroad.
- vi) An Electronic Data Processing Audit was completed in September 1979 with the conclusion that the Computer Services Division of the Comptroller's Branch had made major improvements in their standards and procedures.

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- vii) Person-Years for Comptroller's Branch: In October 1979, Treasury Board agreed to an initial allocation of additional resources for the Comptroller's Branch to enable information systems development to proceed with celerity - this is our top priority.
- viii) Long Range Systems Project: 80% of the total Agency's functional management information needs has been analysed. The full analysis and subsequent integration is planned for completion by January 1980. From this management system projects will be defined, and assigned relative priorities by MACIP. System development projects will be underway by February 1980.
- ix) Personnel Administration: A Field Staff Allocation Study, completed in February 1979, has led to the development of a model to determine staffing level required in the field. Also, since June 1979, new training and management development policies have been adopted which link training requirements to managers' needs, and require evaluation of training results from managers.
- x) Food Aid: A control point was established in July 1979 to ensure that purchases for food aid cannot be made until Memoranda of Understanding are in hand in the Food Aid Coordination and Evaluation Centre. From October 1979, all contracts signed with food suppliers will include the supplier's certification that the price charged to CIDA is not higher than the international price for that commodity on the date of purchase.
- xi) Resources: In early October 1979, the Agency initiated a Consultant Performance Appraisal Process to provide a quantitative and qualitative assessment of the adequacy of consultants' performances in relation to their mandate.
- xii) Multilateral: In August 1979, the Branch initiated with Treasury Board steps which, when completed, will result in single-year appropriations only. The Branch also initiated, in July 1979, a complete review of all contingent liabilities to Canada.

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- xiii) Non-Governmental Organizations: A 3 year plan for the auditing of NGO projects was presented to the Agency Audit and Evaluation Committee in early September 1979.
- xiv) Bilateral: A number of deficiencies signaled in your report have already been acted upon. These include:
- a directive requiring project teams to meet at key stages in the development of a project;
 - the establishment of control mechanisms which ensure that Plans of Operation are monitored in each of the Divisions;
 - improved budgeting at Branch level through POPs, which now provide project budgeting by component and related activities;
 - the introduction of regular project status reports to senior management.

A final comment on the Plans of Operations: A number of comments in the report tend to suggest that this system is fully developed and refined and that the essential problem rests with implementation. In fact, Plans of Operations are still in the process of development. We are committing the necessary resources in order to fully develop and implement this important management system.

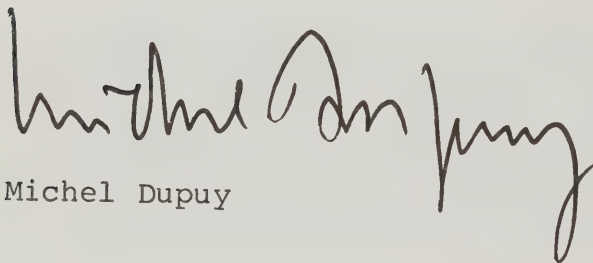
That all of these moves should have been undertaken since the completion of the audit is further evidence of the commitment of management to change and improvement. You are fully aware of the magnitude of the task. By the mid-1970's, the rapid growth in volume and complexity of the Canadian aid programs had overtaken CIDA's corporate structure and its major information management and control systems. Foreign aid planning and operations have such a particular character that, even with the benefit of extensive consultation with other senior aid agencies, we have had to design and institute novel systems which would meet our own requirements. Fortunately, I believe that most of this task is now behind us.

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This being said, I am still not satisfied that the current rate of progress will permit us to introduce all of the improvements we have planned within our set time frame of completion in 1980. Your report has noted the extent to which the responsibility for the management of our foreign aid program is shared with other departments; our regulatory environment also contains a number of other constraints. Even more significantly, such an extensive overhaul of CIDA has important resource implications, both in terms of personnel and of funding for needed outside contracts.

A new challenge to CIDA's management will be the setting of priorities for improvement. I am concerned that current resources available to the Agency for administration and improvement will not enable us to achieve them all simultaneously.

The cooperation and support of your office has been much appreciated, and your report constitutes an important and constructive contribution to the improvement of CIDA and of its operations.

A handwritten signature in dark ink, appearing to read 'Michel Dupuy', with a stylized, flowing script.

Michel Dupuy

CANADIAN TRANSPORT COMMISSION

CANADIAN TRANSPORT COMMISSION

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CANADIAN TRANSPORT COMMISSION

SUMMARY OF FINDINGS, OBSERVATIONS AND RECOMMENDATIONS

Introduction

13.1 This Chapter contains the major observations and recommendations arising from our comprehensive audit of the Canadian Transport Commission during the 1978-79 audit year. Our study included a survey of all major areas of the Commission. From this survey, we identified key issues for detailed examination and reporting to management and to Parliament.

13.2 The audit was conducted with the full co-operation of the Commissioners, Officers and staff of the Commission.

13.3 This Office will monitor and follow up the recommendations made in this Chapter and monitor the progress achieved in implementing them.

Overview of the Commission

History

13.4 The Canadian Transport Commission (CTC) was established in 1967 by the National Transportation Act, *R.S.C. 1970, c. N-17*. The CTC replaced and absorbed the responsibility of three agencies:

- the Board of Transport Commissioners for Canada which in 1938 replaced the Board of Railway Commissioners for Canada, had jurisdiction in certain areas of air and water transport;
- the Air Transport Board, established in 1944 to undertake the economic regulation of civil aviation; and
- the Canadian Maritime Commission, created in 1947 to administer shipping policy.

In addition to these responsibilities, the CTC was given jurisdiction over transport by interprovincial or international commodity pipelines, and powers of investigation into proposed acquisitions involving motor vehicle undertakings. The Motor Vehicle Transport Act, *R.S.C. 1970, c. M-14*, delegated to the provincial

regulatory agencies responsibility for regulating extra-provincial motor vehicle transportation. This responsibility continues to reside with the provincial bodies, leaving the CTC with relatively little responsibility over motor vehicle transport. No commodity pipelines have been constructed although there has been considerable research into their potential use.

Organization

13.5 The Commission is a court of record composed of not more than 17 members who are appointed by the Governor in Council. The Commission is organized on the basis of modal committees relating to the different modes of transport for the purposes of performing its duties under the National Transportation Act. The major committees include:

- the Railway Transport Committee, which has jurisdiction over rail transport governed by the Railway Act, *R.S.C. 1970, c. R-2*, including railway construction, location, abandonment, tariffs, and safety;
- the Air Transport Committee, which administers those parts of the Aeronautics Act, *R.S.C. 1970, c. A-3*, that apply to any person that operates a commercial air service in Canada. This Committee regulates licensing, air carrier classification, commercial air carriers, traffic tolls, and tariffs; and
- the Water Transport Committee, which has jurisdiction over water transport as prescribed in the Transport Act, *R.S.C. 1970, c. T-14*, which applies to the transport of goods and passengers by ship from one Canadian port or place to another within selected geographical areas.

CTC has established a number of other committees to meet the specific requirements of the National Transportation Act and the special needs of the Commission. They include the Motor Vehicle Transport Committee, the Commodity Pipeline Transport Committee, the International Transport Policy Committee and the Review Committee. In addition, CTC maintains a Research Branch in support of all the modal committees.

13.6 The Commission appoints a commissioner to be chairman of each committee. The chairman acts both as judicial head of the committee when it is sitting and as administrative head for its day-to-day operations. The heavy judicial workload imposed on the chairmen leaves little time for the administrative role. This workload includes public hearings related to abandonment proceedings on uneconomic branch line and passenger services, rate applications, and issuance of licences for commercial, marine and air carriers. Concentration on committee activities has tended to encourage the vertical development of independent committee administrative and support groups, with centralized "commission" services limited to elements of financial administration, personnel management and research. The major program components or activities of the Commission may be grouped in three categories.

Economic Regulation

13.7 Rate regulation. The CTC regulates rail, air, water and passenger rates. Railway freight rates, apart from some explicit exceptions, are required to be compensatory. This means that the rate must exceed the variable cost of the movement. All of the other regulated rates are required to be "just and reasonable."

13.8 The carriers notify the CTC of proposed changes in rates. If there are no objections and if the CTC does not choose to investigate, the proposed tariffs automatically go into effect after 90 days. Otherwise, the CTC sets the tariffs and the dates that they will go into effect.

13.9 Licensing. The CTC licenses:

- all commercial air services;
- general cargo vessels of 500 gross tons or over on the Great Lakes; and
- all vessels of 15 gross tons or over on the MacKenzie River system.

13.10 Carriers wishing to operate a service for which a licence is required must apply to the CTC. The criterion for granting a licence is that the proposed service is required for "public convenience and necessity".

13.11 Acquisitions. A person or firm engaged in transportation under federal jurisdiction, who proposes to acquire a direct or indirect interest in a transportation undertaking, must notify the CTC. Any person or group affected by the proposed acquisition may object on the grounds that "it will unduly restrict competition or otherwise be prejudicial to the public interest". An objection requires that the CTC investigate. Based on the investigation, the Commission may disallow the proposed acquisition.

Safety Regulation

13.12 Protection at railway crossings. Certain works for the protection, safety and convenience of the public at railway crossings qualify for assistance from the Department of Transport or the Railway Grade Crossing Fund. These works fall into two categories: grade separations, and installation of protective devices such as bells and flashing lights, or gates. All protective works must be approved by the CTC.

13.13 Safety of railway equipment and operations. The CTC is responsible for regulating the safety of the railway infrastructure, equipment and operations. It fulfills this responsibility by undertaking routine inspections of locomotives, other rolling stock, infrastructure, and the equipment and procedures used to handle dangerous commodities. Railway accidents must be reported to the Commission in accordance with CTC General Order 0-1 and it may choose to investigate the causes.

Subsidy Administration

13.14 Uneconomic passenger services. A railway company may apply to the CTC for permission to discontinue an uneconomic passenger service. The Commission must determine whether the service, or parts of it, are in the public interest. If parts or all of the service are found to be in the public interest, the railway is ordered to continue to provide that portion of the service. Otherwise, the service is ordered discontinued. The railway is eligible for subsidies amounting to 80 per cent of the loss incurred, starting 90 days after the date of application. The subsidies continue until the service is ordered discontinued.

13.15 Uneconomic branch lines. A railway company may apply to the CTC for permission to abandon an uneconomic branch line. The Commission must determine whether the branch line, or any segment of it, is necessary for the public interest. If part or all of the line is found to be in the public interest, the railway is ordered to continue to maintain that portion of the line. Otherwise the line is ordered abandoned. The railway is eligible for subsidies equal to the loss incurred starting 90 days after the date of application, and subsidies continue until the line is ordered abandoned.

13.16 Atlantic and Eastern Grain and Flour subsidies. The Atlantic and Eastern Grain and Flour Subsidy Program is intended to encourage the continued use of east coast ports for the export of grain and flour. This is achieved by paying a subsidy equal to the difference between compensatory rates, established by the CTC, and the frozen rates for grain and flour shipments from inland points to eastern ports for export.

13.17 Atlantic Region Freight Assistance Act, R.S.C. 1970, c. A-18, and Maritime Freight Rates Act, R.S.C. 1970, c. M-3. These Acts provide subsidies on freight shipments originating within a "select territory" and destined to other points in the select territory or to points in Canada west of the select territory. The select territory includes Newfoundland, the Maritime Provinces, and the portion of the Province of Quebec south of the St. Lawrence River and east of a line from Lévis to the U.S. border. There are different subsidy levels on the intra-territory and westbound shipments. The CTC administers the subsidy payments.

Financial and Other Data

13.18 In the fiscal year 1978-79 the Commission's gross expenditure was \$471.6 million and its authorized person-years were 878. A summary of financial operations for the 1978-79 fiscal year is as follows:

Summary of Financial Operations

	<u>Expenditure</u> (thousands of dollars)
Operations	23,059
Employee Benefit Plans	2,224
Contributions	
Regulatory and Control	37,555
Payments under Railway Act	367,465
Payments Atlantic Region Freight Assistance Act	<u>41,283</u>
	<u>471,586</u>

Subsidies Paid under the Railway Act

	<u>1978-79</u> (thousands of dollars)	<u>1977-78</u> (thousands of dollars)
Sec. 256 - Unprotected Branch Lines	11,099	6,740
258 - Protected Branch Lines	98,854	84,700
261 - Uneconomic Passenger Services	212,834	187,803
272 - Eastern Grain and Flour	<u>44,678</u>	<u>22,775</u>
	<u>367,465</u>	<u>302,018</u>

13.19 The number of employees and the salary expenditures, which form 80 per cent of the operating budget of the Commission, are as follows:

<u>Organization</u>	<u>Number of Employees</u>	<u>Expenditure</u> (thousands of dollars)
Administration and Support Services	203	4,116
Air Transport Committee	130	2,596
Rail Transport Committee	219	5,838
Research Branch	102	2,618
Traffic and Tariffs	101	1,976
Water Transport Committee	25	567
International Transport Policy Committee	22	513
Motor Vehicle Transport Committee	<u>5</u>	<u>101</u>
	<u>807</u>	<u>18,325</u>

Scope of Audit

13.20 Our comprehensive examination of the Commission was designed to place primary emphasis on the evaluation of the financial and management control systems in place. Our review covered the major activities of the Commission and included:

- a comprehensive examination of the systems used for financial planning, budgeting and reporting and the integration of those systems with operational planning and controls;
- an examination of the Rail Economic Analysis Branch and the methods used to verify subsidy claims and payments paid under the Railway Act;
- an examination of the practices, controls and procedures for the electronic data processing of financial information;
- an evaluation of internal audit goals, plans, standards and procedures;
- a Commission-wide review of the procedures in place for measuring the effectiveness of the different programs; and

- a review of selected activities in the personnel function, including manpower planning, human resource information systems, and training and development.

Summary of Audit Observations

13.21 The CTC performs judicial, regulatory, and subsidy administration roles. In its judicial role it makes decisions on certain matters over which it has jurisdiction. In its regulatory role it ensures compliance with the law and with its own regulations. In addition, it processes subsidy claims from railways and truckers.

13.22 Our studies indicated that the CTC did not have adequate procedures in place to ensure that there was proper verification of the actual loss claimed by a railway company and certified for payment out of the Consolidated Revenue Fund. Payments to railways under these subsidy programs amounted to approximately \$350 million per year.

13.23 The Commission is currently reviewing its organizational structure and is in the process of rationalizing some of the administrative functions of its committees.

13.24 The current organization of the Commission contributes to several of its problems. The committee chairman acts as the judicial head of the committee when it is sitting and as the administrative head of the committee staff. This combination of responsibilities imposes many competing demands on the chairman's time. For example:

- Applications to abandon uneconomic branch lines and discontinue uneconomic passenger services require public hearings and in-depth analysis before a decision can be rendered. The committee chairman plays a key role in this essential but time-consuming judicial process. At present, the processing of an application requires 3.5 to 4.0 years before a decision is made and consumes a large portion of the chairman's time.
- Numerous issues relating to the determination of the actual loss incurred in the operation of a railway branch line remain to be resolved and also require a major portion of the chairman's attention. For example, not one claim for loss in respect of an uneconomic branch line has yet been finalized. The backlog of unpaid claims for uneconomic branch lines and passenger services amounted to \$407 million as of March 31, 1979.

13.25 Organization of the Commission staff into separate groups servicing individual committees is not conducive to the necessary integration of forecasting, budgeting and reporting at all levels.

13.26 Program effectiveness has not been measured where we consider that it would have been reasonable and appropriate to do so. The Commission, therefore, lacks objective information about the impact of its programs. Although in some cases responsibility for program evaluation is not clearly assigned to the Commission, it does have within its mandate the authority to undertake such studies and, as the administrator of the program, is in the best position to conduct them.

13.27 Several of the subsidy programs could be made less costly or easier to administer. These include:

- Atlantic and Eastern Grain and Flour Rates subsidy;
- Atlantic Region Freight Assistance Act subsidies; and
- subsidies for uneconomic branch lines which may be affected by "bridging" traffic and by the Prairie Branch Line Rehabilitation Program.

13.28 The CTC has a mandate to report to the Minister of Transport on how the administration of subsidy programs could be improved. There is little evidence that it has exercised this mandate.

13.29 Our studies also indicated that the Commission lacked an adequate manpower planning system. This may create serious problems in attempting to provide for the extensive number of retirements that will occur in the various Committees over the next few years.

13.30 Analysis of the Commission's manpower utilization rates indicated considerable fluctuation between the person-years requested and those used. There was little evidence that manpower requests were based on a realistic assessment of manpower requirements. Little or no information was available on attrition rates, historical trends, and training and development requirements. In effect, the Commission lacks the information or the systems to determine with any precision its manpower requirements or its training and development needs.

13.31 A review of the Internal Audit Unit, established three years ago, revealed that it had completed few audits and had no approved mandate. In addition, no short- or long-range operational plans had been developed to execute a proposed mandate.

13.32 The Commission has recognized a number of deficiencies in its current operating procedures for verifying data submitted to support a claim for the loss incurred in operating an uneconomic branch line or passenger service. It plans to institute revised audit procedures that should materially strengthen the level of confidence that it has in the data supplied to it. Major improvements will include a systems-based audit of the railways' accounting systems, verification of service or output units, and upgrading the technical level of the staff conducting these examinations.

13.33 CTC also plans to introduce improvements to the financial planning and budgeting process that will include the preparation of time-phased work plans for better control of operations and staffing.

Audit Findings and Recommendations

13.34 We gave the CTC a management report which contains a detailed discussion of our findings, analyses and recommendations. The remainder of this Chapter is devoted to a summary of our observations and recommendations pertaining to each of the major areas examined during the course of our audit.

Auditability of Payments Under the Railway Act

Introduction

13.35 The Commission is responsible for administering subsidy programs designed to keep certain uneconomic railway branch lines and passenger services in operation to serve the public interest.

13.36 These subsidies are administered by the Rail Transport Committee through its Rail Economic Analysis Branch (REAB) which receives, audits and processes the subsidy claims for payment. To carry out the work associated with the processing of subsidy claims, the REAB is made up of three divisions: Accounting Systems Analysis (ASA); Costing Systems Analysis (CSA); and Rail Services Analysis (RSA).

Summary of Findings

13.37 The Railway Act imposes heavy responsibilities on the Commission to administer certain subsidies authorized by Parliament to be paid to the railways. In Section 256(3) of the Act, Parliament has directed that the claims for losses on operating uneconomic branch lines shall be submitted to the Commission. Section 256(4) directs that:

"The Commission shall examine the claim and shall certify the amount of the actual loss, if any, that in its opinion was attributable to the line and the Minister of Finance, on the recommendation of the Commission, may, in respect of the loss, cause to be paid to the company out of the Consolidated Revenue Fund an amount not exceeding the amount of the loss as certified by the Commission."

13.38 Similar provisions have been made for protected branch lines, continued in operation by order of the Governor in Council, and for uneconomic passenger services. The payment of claims submitted against uneconomic passenger services may not exceed 80 per cent of the loss as certified by the Commission.

13.39 In our view, the Commission has not followed the direction from Parliament to determine the actual loss attributable to a given line or service.

13.40 Our review indicates that there were serious gaps in the verification procedures used by the Commission to determine the actual loss to be certified to the Minister of Finance. These procedures gave little assurance that the data submitted by the railway companies were acceptable. Output units, an integral part of unit costs, had not recently been verified on a planned, rational basis.

13.41 We believe that the CTC, in arriving at the determination of loss, needs to give due regard to the adequacy of the current level of audit methodology applied to the determination.

13.42 We therefore concluded that the Canadian Transport Commission did not have adequate procedures in place to ensure that there was a proper evaluation of the actual loss claimed by the railway company and certified for payment out of the Consolidated Revenue Fund.

Background Information

13.43 Total claims received pursuant to the Railway Act and paid to March 31, 1979 were as follows:

	<u>Claimed</u>	<u>Paid</u>	<u>Outstanding</u>
	(thousands of dollars)		
Sec. 256 Unprotected Branch Lines	71,943	31,087	40,856
Sec. 258 Protected Branch Lines	814,052	545,899	268,153
Sec. 261 *Uneconomic Passenger Services	1,310,751	1,212,376	98,375
Sec. 272 Eastern Grain and Flour	<u>130,696</u>	<u>130,696</u>	<u>-</u>
	<u>2,327,442</u>	<u>1,920,058</u>	<u>407,384</u>

* Claims under section 261 represent 80 per cent of actual loss in accordance with the Railway Act.

13.44 The claims submitted consist of a statement of revenues, costs and loss for the claimed service or line. This statement is supported by working papers and a description of the methodology used in developing the various costs. In simple terms, a subsidy claim for losses consists of four components, illustrated in the following equation:

$$\text{Subsidy Claim} = \text{Specific Costs} + (\text{Unit Costs} \times \text{Output Units}) - \text{Revenues.}$$

13.45 Specific costs are costs that can be identified from the railway's accounts and are directly associated with a single branch line or passenger service. These costs are variable with traffic and would be avoided if the service were discontinued or the line abandoned. Specific costs include such items as on-train crew wages, on-train sleeping, dining and parlour car wages and other related expenses.

13.46 Unit costs are costs that must be calculated or estimated. They represent the cost of a unit of product or service, such as signals maintenance or track depreciation and maintenance. Production or output units are measured in terms of ton miles, car miles, yard switching minutes, etc. The expense data used to develop these costs are grouped into account complexes. The relationship between the account complexes and the output units is established by direct analysis or by regression analysis.

13.47 In direct analysis, the cost of an operation or activity is determined by a review of an expense account and an appropriate output unit. For example, the cost of fuel consumed by engines in yard switching service is divided by the number of yard switching minutes to obtain the fuel cost per yard switching minute.

13.48 Regression analysis is a statistical technique used by the CTC to relate costs derived from the railways expense accounts to one or more related output units. It produces an estimated coefficient or unit cost for each of these outputs. The cost methodology used by the Commission is a unique blend of accounting, statistics, and economics. Using this technique, roadway maintenance, which includes labour and material, is allocated by gross ton miles and yard- and train-switching minutes.

13.49 Payments to the railways based on this equation amount to approximately \$350 million a year.

Observations and Recommendations

13.50 The Commission's audit process. Examination of railway accounting records are scheduled on an annual basis with emphasis on capital projects. To date, the Accounting Systems Analysis Division has been unable to meet the planned schedule for these examinations.

13.51 The railway companies submit cost studies to support the specific costs to be used in subsidy claims. Costing Systems Analysis Division reviews these cost studies and may conduct field trips to review railway records before the specific costs are accepted.

13.52 Unit costs submitted by the railway companies for approval by CSA are supported by detailed analysis files, expense data, copies of regression runs where applicable, and output unit reports. Costing Systems Analysis Division staff review the methodology used and determine whether recommendations for improvement made in previous years have been incorporated into the current submission. The approved unit costs are an integral part of the subsidy claim processing and are used extensively in applications for rail line abandonment and passenger service discontinuance.

13.53 Unit costs by regression analysis. Section 330 of the Railway Act directs the Commission to have regard to the principles of costing recommended by the Royal Commission on Transportation which reported in April 1961. Chief among these principles was that unit costs in railway operations should be determined by the statistical method of regression analysis.

13.54 In the context of Canadian railway costing, regression analysis is a mathematical technique whereby variations in expense items are related to variations in railway traffic. In addition, the railways use "cross-section" analysis which involves comparing traffic and expense levels in various geographical areas or divisions of the railway during the same period. This comparison of the

divisional relationship between expense and traffic reveals an average relationship which is presumed to apply throughout the railway.

13.55 The Commission does not perform or verify any appreciable number of the numerous regression analyses for which it is responsible. These analyses are done for the Commission by the two Class I railways. Printouts of their regression analyses are submitted by the railways for the Commission's review. These printouts are inadequate for sound verification because they lack such necessary features as measure of correlation among coefficients, confidence limits for coefficients and graphs of residuals. Inadequate analysis may lead to inaccurate unit costs being accepted, and result in inappropriate subsidy payments to the railways.

13.56 The Commission's use of regression analysis as a tool in determining unit cost coefficients has been passive. The Commission's review of printouts submitted by the railways is partly statistical, using tests of significance and measures of fit, and partly comparative, comparing unit costs to those previously accepted for the same cost complex. Little or no attempt has been made to explore whether there are other variables that might fit the circumstances in a more appropriate way, or to improve the quality of the regression printouts by establishing standards applicable to the regression package used. For example, the CTC should independently run and check multiple and key simple regressions in an attempt to improve current models.

13.57 At present there is insufficient staff with the necessary expertise in performing regression analysis to handle the volume of regressions that should be verified. This contributes to the present delay in processing applications for abandonment of uneconomic rail lines and in finalizing subsidy claims.

13.58 Our review of the procedures used by the Commission to verify rail subsidy claims disclosed that:

- there has been no evaluation of the accuracy and reliability of the railway companies' accounting and financial systems;
- source data used in the development of unit costs has been subject to limited verification;
- there has been no recent regular audit to verify output units; and
- current procedures manuals and audit programs are general in nature and do not include some essential verification procedures.

13.59 *The Commission should evaluate the accounting and financial systems in the railways that provide data to the CTC for use in subsidy determination.*

13.60 *The CTC should clearly establish responsibility for the verification of service or output units and ensure that the necessary verification procedures are instituted.*

13.61 *The CTC should establish procedures for the verification of basic accounting, financial, and statistical data used in developing specific and unit costs.*

13.62 *The CTC should prepare written procedures sufficiently detailed to ensure that all essential audit tests are included. These procedures should be updated regularly.*

13.63 *The CTC should acquire a state-of-the-art regression package for its own use and for use by the railways.*

13.64 *The CTC should independently run and check multiple and key simple regressions with a view to improving current models.*

Program Effectiveness

Introduction

13.65 The Canadian Transport Commission has a variety of responsibilities for the various modes of transport. We examined three major activities of the CTC's program -- economic regulation, safety regulation and subsidy administration. Details of these activities have been outlined earlier in the Overview of the Commission beginning at paragraph 13.4.

Observations and Recommendations

13.66 We analysed the three program activities outlined above with respect to:

- definition of objectives and effects;
- the adequacy of the procedures for evaluating program effectiveness where it would be reasonable and appropriate to do so;
- reporting of effectiveness assessments; and
- responsibility for effectiveness evaluation.

13.67 Definition of objectives and effects. We reviewed the objectives of the following program components to determine whether they were defined in a manner that would permit evaluation of effectiveness:

- rate regulation;
- licensing;
- acquisitions;
- uneconomic passenger services; and
- uneconomic branch lines.

13.68 The objectives of these program components are stated in the governing legislation. The modal committees have defined general criteria to guide their decision-making toward achieving these objectives. This constitutes a significant step toward defining the objectives of the program components in operational terms. The measurement of the outcome of the decisions, however, requires more precise definition of the criteria.

13.69 Our interest is in the adequacy of the procedures used to measure the effectiveness of the decisions that have been made. The factors that are relevant to each case and the weight to be assigned to each factor are matters to be determined by the committee concerned. Once the committee has made a decision, it is desirable to evaluate, where appropriate and reasonable, the extent to which the carrying out of the decision achieves the stated objective.

13.70 Evaluation of program effectiveness where it would be reasonable and appropriate to do so. We reviewed the following program components to determine whether it would be reasonable and appropriate to evaluate their effectiveness:

- Railway Grade Separation and Railway Grade Crossing Fund;
- Railway Safety;
- Atlantic and Eastern Grain and Flour Subsidy; and
- Prairie Branch Line Abandonment.

13.71 For grade separations and the Railway Grade Crossing Fund, the CTC has developed a hazard index that relates the risk of accident at a railway crossing to its characteristics. Using the hazard index, it is possible to measure the reduction in hazard achieved by a given expenditure of funds. The index can

also be used to determine whether the same expenditure allocated to different types of protection or different crossings would have achieved a greater reduction in hazard. In this way it is possible to measure the effectiveness of the program.

13.72 The Railway Transport Committee held a safety inquiry during the period 1971 to 1973 and further studies were conducted by the Bureau of Management Consulting. A number of recommendations resulted, including:

- changes in the car and locomotive inspection programs including the procedures for selection of units, inspection and reporting; and
- changes in the accident reporting requirements for the railways and in the reporting of accident investigation results by CTC staff.

Implementation of the recommendations from the safety inquiry would provide some of the information needed to enhance measurement of the effectiveness of the CTC's activities in support of safety regulation. The computer data base necessary to provide this information is being developed.

13.73 The purpose of the Atlantic and Eastern Grain and Flour Subsidy Program is to:

- reduce the cost of flour for export, making Canadian flour more competitive on world markets;
- increase shipment of grain and flour exports through Great Lakes and east coast ports; and
- change the seasonal pattern of grain and flour export shipments.

In our opinion, performance against these objectives can be measured; however, this has not yet been done. The Research Branch has prepared a proposal for a study of the effectiveness of this program.

13.74 The Research Branch has also carried out extensive studies on the impact of abandoning prairie branch lines. This research falls into three general areas:

- collection of data concerning the branch line, the communities it serves and the farmers in the surrounding area;
- development of a computer simulation model of the grain delivery system from the farm to the rail car; and
- evaluation of line viability and impact of line closure.

All these steps are carried out before a decision on an application is made. This approach could also be used to measure the effectiveness of uneconomic branch line decisions by following up on the actual impact of the decisions.

13.75 Reporting of effectiveness assessments. A report prepared by the Department of Transport on the intra-select territory subsidies of the Atlantic Region Freight Assistance Act asserts that this program is not effective. We found that no objective evaluations of the effectiveness of the program were available to support this conclusion. No other example of reporting of effectiveness evaluation came to our attention during our audit.

13.76 Responsibility for effectiveness evaluation. For several program components of the CTC, responsibility for assessing program effectiveness is not clearly assigned. Among the programs where the responsibility is unclear are:

- Maritime Freight Rates Act and Atlantic Region Freight Assistance Act;
- Atlantic and Eastern Grain and Flour subsidies;
- uneconomic passenger services; and
- grade separations at railway crossings.

In most of these cases, the CTC administers the program but the Department of Transport establishes the policy.

13.77 *The CTC should undertake to measure and report the effectiveness of its programs, where it would be reasonable and appropriate to do so, against criteria that are defined in a way that allows achievement to be measured, and should report the results to the Minister of Transport.*

13.78 *The Commission should implement the recommendations of the rail safety inquiry at an early date, thereby making available information needed to enhance measurement of the CTC's activities in support of rail safety.*

Computer Systems

Introduction

13.79 The functions of the Computer Systems Division of the Computer Systems and Research Support Directorate are to provide technical support backed by state-of-the-art expertise to the research and analysis groups of the Commission and to develop management information and scientific computer systems for it.

13.80 The Division has a staff of 25 persons providing systems development, operations research and other related support functions to all Committees within the CTC. Data processing is done through service bureaux, but the Commission does have a small "remote job entry" computer that permits job submission and reception using a card reader and printer.

13.81 Electronic data processing installations providing these services must have procedures and controls for all aspects of support and development. We reviewed the Computer Systems Division to determine whether such procedures and controls were in place. The major areas of interest during the review were:

- organization;
- systems development;
- operations;
- documentation; and
- external data centre services.

In addition, we examined in detail the Costing and Subsidies System of the Rail Economic Analysis Branch to complement the financial segment of our audit -- Auditability of Payments under the Railway Act.

Observations and Recommendations

13.82 There is no central management group within CTC to determine needs and priorities or to provide direction and control to the Computer Systems and Research Support Directorate. The Computer Systems Division lacks procedures and controls for project management, systems development, documentation, and performance measurement of its systems and personnel. The level of client participation in systems development and maintenance does not ensure that implemented systems meet specified requirements.

13.83 Medium- and long-term resource requirement forecasts have been developed; however, companion action plans for the utilization of resources have not been prepared.

13.84 The Costing and Subsidies System of the Rail Economic Analysis Branch, used to determine rail subsidies, was obtained from the railways and modified for use by the Branch. It was not redeveloped, implemented, or documented according to any prescribed Commission standards. The internal methodology of the system has not been reviewed in recent years for compliance with the Commission's requirements.

13.85 *An EDP advisory committee made up of senior managers from each Committee should be established to determine priorities and areas of need for EDP services.*

13.86 *CTC should develop and implement an action plan for defining and imposing procedures and controls on EDP functions.*

13.87 *The Costing and Subsidies System should be reviewed to determine whether the current system satisfies the requirements of the Commission.*

Financial Planning, Budgeting and Reporting

Introduction

13.88 Through Main and Supplementary Estimates in 1978-79, the CTC obtained approval for resource ceilings of 878 person-years and \$26.4 million for operating and capital expenditures. Subsidy payments through grants and contributions accounted for a further \$444.2 million.

Observations and Recommendations

13.89 In its planning process, the Commission has relied heavily on the standard form of the Program Forecasts, Estimates, and Public Accounts process. These, however, are generally not designed to provide the budgetary and financial data managers require. The Commission has not devoted sufficient attention to developing a management system of planning, budgeting and reporting.

13.90 The CTC has not implemented a formal planning process. Although a broad objective for the Commission is documented in the Main Estimates, and general criteria to guide decision-making have been developed, specific operational objectives have not been set for each organizational unit and activity. As a result, there is no basis for defining and describing alternative activities that each unit could undertake in order to reach the Commission's objectives. Consequently, neither resource requirements nor expected benefits and results can be expressed in relation to formally established activities and objectives approved by management.

13.91 The Commission has not developed annual operating plans, within the resource ceilings approved by Parliament, that describe the work programs expected of each manager. Nor has it defined relevant measures and indicators that would reflect the performance of managers in accomplishing the tasks assigned to them over the year. Because there is no formal basis for managerial accountability, accountability of the Commission to Parliament is weakened.

13.92 After developing plans and budgets, there is a need to accumulate and report data during the year to allow managers to account for their performance and use of resources in relation to the plan and budget. There are some essential elements of a comprehensive accounting system in place in parts of the

Commission; however the systems are weak because they do not include operational data, are not based on an operational budgeting system, and are not implemented throughout the CTC.

13.93 The CTC needs to improve both the internal budgeting and planning process and the way it presents its plans and resource requirements to Parliament and subsequently accounts for the discharge of its financial responsibilities. Better presentation of the relationship between activities, objectives, costs and achievements is required in the Estimates. As well, better presentation and more useful information is required about subsidy and contribution payments which account for the major portion of the Commission's spending. These payments can have a significant impact on operational expenditures since a large portion of the Commission's resources are devoted to administering subsidy payments.

13.94 The Public Accounts provide the official means for the Commission to account for the plans and resources outlined in the Estimates. As presentation in the Estimates is improved, it will be possible to provide better accountability information in the Public Accounts.

13.95 The Commission also accounts for its activities in its annual report to Parliament. The form and content of the report are solely the responsibility of the Commission. Although the report is more informative than the Public Accounts, there are ways the Commission could augment the disclosure of its accomplishments and use of resources.

13.96 The annual report should include an accounting, both in financial and operational terms, of the activities planned in support of the Estimates and the success achieved in carrying out those activities. As well, data should be compared to the previous year's. At present, the annual report contains little information concerning the operating budget. Explanations of resource allocation and utilization would improve disclosure.

13.97 *The Commission should formalize its planning process by:*

- *defining and documenting specific operational objectives for its major organizational units; and*
- *developing and approving annual operational work plans, including the tasks to be done, the resource requirements, the expected costs and the anticipated results to be produced by each manager.*

13.98 *The Commission should expand its accounting and reporting system to integrate financial, operational and performance data and report this data to managers in comparison to their operational plans.*

13.99 *In its Estimates presentation, the CTC should include a clear description of the objectives to be achieved, the activities on which resources will be expended, and the anticipated results. Similarly, action should be taken by the Commission to improve the accountability information contained in the Public Accounts.*

13.100 *The Commission should augment the information in its annual report so that it accounts more fully for its activities. In particular, the annual report should include financial and performance indicators on a comparative basis, the achievements of the Commission, and explanations about how resources were allocated and subsequently used.*

Processing of Applications to Abandon Branch Lines and Discontinue Passenger Services

Introduction

13.101 Railways may apply to the CTC for permission to abandon uneconomic branch lines and to discontinue uneconomic passenger train services. The CTC must determine whether continued operation of the branch line or passenger train service is in the public interest. If continued operation is ruled to be desirable, subsidies are payable starting 90 days after the date of application. If continued operation is ruled to be unnecessary, subsidies are payable for the period starting 90 days after the date of application and ending on the date fixed by the CTC for abandonment or discontinuation.

13.102 If an uneconomic branch line is ordered abandoned, or an uneconomic passenger service is ordered discontinued, the time taken to process the application is important. If the application can be processed within 90 days, no subsidies need be paid. In practice, most applications cannot be processed within that time. It is important, however, to process the applications as quickly as possible to keep subsidy payments to a minimum.

Observations and Recommendations

13.103 **Abandoned branch lines and discontinued passenger services.** The Rail Economic Analysis Branch compiled a list of branch lines and passenger services which were ordered abandoned or discontinued before February 28, 1979.

13.104 A total of 118 branch lines was ordered abandoned. These applications took an average of four years and 254 days to process. Twenty-three non-prairie lines took an average of three years and 125 days to process and claims amounted to \$2.2 million. The remaining 95 lines were prairie branch lines and required an average of just over five years to process. During that time they were

"protected" (operating loss guaranteed) under Section 258 of the Railway Act for an average of a little over 1.5 years and unprotected for about 3.5 years. The claims filed for them amounted to \$59.9 million in total, including \$10.9 million while unprotected.

13.105 Five uneconomic passenger services were ordered discontinued. On average, these applications required more than four years to process. The claims for uneconomic passenger services are 80 per cent of the losses incurred. The claims for the five services ordered discontinued totalled \$3.6 million.

13.106 It must be stressed that the figures are claims. They are not amounts paid. The Rail Economic Analysis Branch indicated that certain claims may be overstated because of calculation errors. Auditing of claims will lead to some disallowances, so actual payments will be less than the claims.

13.107 Because of the time required for public hearings, many decisions on abandonment or discontinuation cannot be implemented within 90 days. Each abandonment application must be researched to develop historical traffic, revenue and cost data. The physical status of the branch line must also be assessed and the impacts of abandonment on communities and shippers must be evaluated. Although these and other factors must be assessed before a decision is made, the process could be shortened if criteria for abandonment were established and published, allowing all interested parties to respond. There is little evidence to indicate that 3.5 to 4.0 years is required, and none to suggest that the CTC has attempted to minimize the processing time.

13.108 Outstanding applications. At February 28, 1979 the CTC had 100 branch line abandonment applications on which decisions had not yet been made. At the time of our audit none of these lines was protected. For those lines that are ordered abandoned, delays in issuing the decisions will increase the subsidy claims.

13.109 These applications have been grouped into three categories:

- Hall Commission. These are lines recommended for abandonment between June 30, 1977 and December 31, 1981 by the Grain Handling and Transportation (Hall) Commission. This category includes 30 branch lines. The applications for abandonment have been before the CTC, on average, over 3.5 years. The claims for these lines amounted to \$8.0 million for 1976.
- PRAC recommendations. These are lines recommended for abandonment between 1979 and 1985 by the Prairie Rail Action Committee. This category includes 43 branch lines for which the claims for the year 1976 amounted to \$11.5 million. These applications have been before the CTC for an average of 1.5 years.

- Other applications. This category, consisting primarily of non-prairie branch lines, includes all other applications. There are a total of 27 lines for which claims amounting to \$3.3 million were filed for 1976. These applications have been before the Commission an average of 3.5 years.

13.110 Extensive study by the Hall Commission and the Prairie Rail Action Committee has produced recommendations that most of these lines be abandoned. This evidence strongly suggests that future subsidy claims can be significantly reduced if decisions on the outstanding applications are made promptly.

13.111 Reporting. At present, the CTC has no system for reporting the period of time taken to process applications for abandonment or discontinuation. It can only be obtained by going through the files for all applications. This kind of information could readily be incorporated into the annual report of the CTC.

13.112 *The CTC should establish criteria and procedures for processing the outstanding branch line abandonment applications with the objective of reducing the processing time.*

13.113 *The CTC should include in its annual report the status of the applications before the Commission for abandonment of branch lines and discontinuance of passenger services.*

Atlantic and Eastern Grain and Flour Subsidies

Introduction

13.114 Section 272(2) of the Railway Act provides that:

"(2) For the purpose of encouraging the continued use of the Eastern ports for the export of grain and flour,

- (a) rates for grain moving in bulk for export to any Eastern port from any inland point over any line of a railway company subject to the jurisdiction of Parliament shall be maintained at the level of rates applying on the 30th day of November 1960 to the movement of such grain to Eastern ports; and
- (b) rates on flour moving for export to an Eastern port from any inland point over any line of a railway company subject to the jurisdiction of Parliament shall be maintained at the level of rates applying on the 30th day of September 1966 to the movement of such flour to Eastern ports."

Section 272(1) of the Act defines an inland point as follows:

- "(a) in relation to grain, any of the railway points along Georgian Bay, along Lake Huron or along any waterways directly or indirectly connecting with Lake Huron and not being farther east than Prescott, but including Prescott, and
- (b) in relation to flour, any point in Canada east of the 90th degree of west longitude."

An eastern port is defined in the same subsection as any of the ports of Halifax, Saint John, West Saint John and any of the ports on the St. Lawrence River east of Montreal, including Montreal.

13.115 Subsection (3) requires the CTC to determine compensatory rates -- a rate that exceeds the variable cost for moving grain and flour by railway from inland points to eastern ports for export.

13.116 Section 272(4) of the Act also states that each railway is eligible to receive an amount equal to the difference between:

- "(a) the total amount received by the company in respect of that year for the carriage of such grain or flour, and
- (b) the total amount that the company would have received in respect of that year had the grain or flour been carried at the rates determined and published by the Commission under subsection (3) instead of at the Eastern rates."

In short, a subsidy equal to the difference between a compensatory rate and the frozen rate is paid on grain and flour shipments from inland points to eastern ports for export.

13.117 The subsidies paid for Atlantic and eastern grain and flour shipments are shown below. The subsidy payments have been rising steadily.

Subsidy Payments for Atlantic and Eastern Grain and Flour Shipments
(thousands of dollars)

Year	CN	CP	Total
1970	757	2,665	3,422
1971	2,892	2,903	5,795
1972	4,154	4,422	8,576
1973	3,573	3,282	6,855
1974	4,461	3,953	8,414
1975	8,003	5,665	13,668
1976	13,319	10,251	23,570
1977	16,598	11,153	27,751

13.118 Compensatory rates based on weighted average variable costs.

Relating variable costs and freight rates raises a number of complex issues. Freight rates are struck before the goods are carried. Variable costs cannot be determined until after the goods have been moved. The costs are specific to the volume of traffic, the equipment used, weather conditions and a wide range of other factors. Freight rates do not vary with most of these factors. There is, then, a need to relate a range of variable costs to a single rate.

13.119 In the case of the eastern grain rates a single rate applies to movements from any of several inland points to a given eastern port. For example, the long-run variable costs and the associated compensatory rates for grain shipments between selected pairs of origin-destination points are shown below. The costs are the long-run variable costs submitted by the railways for 1976. The compensatory rate is that determined by the CTC.

<u>Bay Port Origin</u>	<u>Destination</u>	<u>Rwy.</u>	<u>Variable Cost (cents/cwt)</u>	<u>Compensa- tory Rate (cents/cwt)</u>
Port McNicholl/Midland	Montreal	CP	38.4)	63
Midland	Montreal	CN	39.3)	
Owen Sound	Montreal	CP	57.1)	
Port Colborne	Montreal	CN	38.4)	
Sarnia	Montreal	CN	43.5)	

A similar pattern is found for the other grain and flour rates.

13.120 To date the Traffic and Tariffs Branch have based the recommended compensatory rate on the highest cost origin-destination pair in each rate group. It was argued that this was necessary to ensure that all rates would be compensatory.

13.121 Traffic data revealed that three rate groups had no shipments over the highest cost route during 1976. If there is no traffic over a route, there is no need for the rate to exceed the variable cost associated with it. Basing the compensatory rates on the variable costs of the highest cost routes with traffic could have reduced the 1976 subsidy payments by \$70,000. It would, however, have created an incentive for the railways to move at least some traffic over the highest cost route to ensure that the variable cost associated with the highest cost route remained the basis for setting the rate which would apply to all traffic moving over all routes covered by the rate.

13.122 The following methods of setting compensatory rates would minimize the subsidy payments:

- setting a separate compensatory rate for each origin-destination pair; or

- setting compensatory rates on the weighted average variable cost of the traffic moved, using actual traffic volumes and costs.

The first method could distort traditional marketing, competitive and port relationships, such as the traditional equality of freight rates to Saint John and Halifax.

13.123 Opinion is divided as to whether the use of a weighted average variable cost is consistent with the requirements for a rate to be compensatory. This approach could have reduced the subsidy payments for 1976 by just over \$5 million.

13.124 **Subsidies on grain originating in Ontario.** As the compensatory rates rise, the subsidies form a larger percentage of the total. The subsidy component is over 75 per cent of the 1976 compensatory rate for some rate groups. The shipper pays only the frozen rate. In southern Ontario this has created a counter-productive situation. A shipper in this area who wishes to send grain or flour directly to an eastern port for export must pay the established rail freight rates.

13.125 Shipping the grain westward for delivery to one of the "inland points" qualifies it for the subsidized rates from that point to the port of export. The cost of the westward shipment, together with the frozen portion of the subsidized rate, is often less than the full rate for direct shipment. For this reason, a substantial and rapidly growing volume of Ontario-grown grain is now shipped at subsidized rates. Grain originating in Ontario now accounts for about 18 per cent of the subsidy payments. This share is rising.

13.126 *The CTC should inquire into the legal requirement to subsidize shipments of Ontario-grown grain and report to the Minister of Transport on possible measures to improve the administration of the subsidy.*

13.127 *The CTC should make provisional subsidy payments during the year. It should set the compensatory rates and finalize the subsidy payments using actual traffic volumes and costs. The cost and traffic data should be audited by the Rail Economic Analysis Branch.*

Payroll Costs Management

Introduction

13.128 CTC's budget for 1978-79 included \$20.8 million for salaries and benefits. Personnel administration involved 31 person-years out of the total complement of 878.

13.129 Our audit focused primarily on three areas of payroll costs management: manpower planning, training and development, and human resource information systems.

Manpower Planning

13.130 Introduction. CTC is not a large organization and, in the past, has depended on informal systems and personal contacts for management information and decision-making in the manpower planning area. However, efficient and economic human resource management requires that a basic manpower planning system be in place, even in a relatively small organization.

13.131 Observations and recommendations. The Commission does not have a system in place to enable appropriate planning and deployment of human resources. The objectives established by the National Transportation Act are general in nature and the Commission's objective is stated in broad, generalized terms. The Commission has not translated its general objectives into specific and quantified operational objectives which, in turn, can be translated into resource requirements.

13.132 There is no analysis or assessment of present or future personnel resources to ensure proper utilization or mix, or to justify additional requests. The approach to manpower planning since 1967 has been incremental and ad hoc.

13.133 CTC operates as a series of separate and autonomous Committees which have maintained their own staffs and support services. Even with the implementation of an Executive Committee and an Operations Committee, there has been no strong "Commission" identity of one organization working toward common goals. As a result, manpower planning activities have been fragmented, with no Commission-wide planning connected to organization goals, program or operational objectives, or work plans.

13.134 Further, there are no meaningful standards in place by which productivity, activity and performance can be assessed and monitored. Regular, Commission-wide analyses of employee trends, strengths, weaknesses and changes have not been carried out. Without standards and analyses there can be no base data for accurate forecasting of future personnel requirements and no justification of present complements.

13.135 The performance appraisal process has not been carried out consistently or completely. There is no analysis of appraisal results to identify training and development needs or to identify staff with potential for promotion.

13.136 There is some indication that the Commission may experience serious personnel problems in the future because of retirements and the nature of the work force. Because of extensive experience requirements, a large proportion of

the present management, professional, and technical staffs were recruited from industry and were hired late in their careers. These people will be eligible to retire during the next five- to seven-year period. No plans have been made for replacing them.

13.137 The Commission recognizes many of these deficiencies and is planning changes. For example, the amalgamation of resource management into one responsibility area is designed to bring resource requests and applications into line with overall planning and to eliminate acknowledged overlaps, duplications and inefficiencies in some functions.

13.138 *CTC should implement procedures to assess manpower requirements and to determine the number, level, type, location and cost of existing and forecast human resources.*

13.139 *Where possible, the Commission should accumulate, analyse, and use accurate and valid data based on activity statistics to assist in determining manpower requirements.*

13.140 *The Commission should analyse manpower information, including turnover, attrition, retirement, mobility and performance.*

13.141 *The Commission should ensure that performance appraisals are completed on a regular basis to provide data for both manpower planning and training and development.*

Training and Development

13.142 **Introduction.** In the past, the Commission has not viewed training and development as high priority items, so plans for these activities have not been developed.

13.143 Most training is of a professional and technical nature and is obtained outside the public service. The practice has been to buy rather than develop training programs.

13.144 **Observations and recommendations.** We found no adequate process in CTC for identifying individual, group and Commission-wide training needs. Managers sometimes select employees for training courses or employees initiate training requests. Line managers have little input into training decisions. Training and development are not related to job profiles, skill, knowledge, or attitude deficiencies, or to identified future requirements.

13.145 CTC introduced its performance appraisal process in 1974. To date, it has not made a significant contribution to identifying needs for training purposes.

13.146 Training activities, both in-house and outside, are not regularly evaluated and related to job performance, knowledge obtained, or change in employee attitude. Specific learning objectives are not set out for particular courses and, therefore, there is no way to assess whether training is effective.

13.147 The CTC does not know the actual costs of its training and development activities, nor do managers know the amounts budgeted for these purposes. The Commission does not have appropriate procedures for identifying, recording, analysing, reporting and controlling all training and development costs.

13.148 *CTC should implement a financial process that will identify and amalgamate both training and development budget estimates and costs, and permit the analysis of variances.*

13.149 *Managers should be assigned budgets and be made responsible for monitoring expenditures and reconciling budgets.*

13.150 *The CTC should implement a process for identifying training and development needs.*

13.151 *CTC should formulate standards and criteria for evaluating all aspects of courses and employees' post-course performance.*

13.152 *CTC should establish specific learning objectives before it develops and implements training courses.*

Human Resource Information Systems

13.153 **Introduction.** The Personnel Branch maintains a manual card inventory of personnel information. Although the manual system is designed to enable the generation of personnel reports, only a few are prepared and issued regularly.

13.154 **Observations and recommendations.** Because manual records have not been maintained consistently, there is a lack of historical personnel data to aid in trend analysis. Each Committee has its own manual version of a personnel records system. In the past, few analyses have been conducted of staffing profiles, retirement profiles, turnover, or attrition rates for the entire Commission.

13.155 Personnel planning decisions have been made informally by each Committee, based on managerial perception of the situation. There is no analysis of manpower data and no plans formulated to handle manpower problems on a Commission-wide basis.

13.156 The Rail Transport Committee has an automated Program/Project Identification, Control and Reporting System (P/PICR) which was implemented in March 1977. The System has a time measurement data base sub-system which covers number of man-hours utilized, by level of employee, by program or project. There is a potential in this sub-system to assist this Committee in the allocation of staff and to establish levels of efficiency and productivity by project type. It has not been used for these purposes.

13.157 *The CTC should use its manual human resource system to produce timely and accurate personnel reports for human resource planning and decision-making.*

13.158 *CTC should maintain the time recording information sub-system of the P/PICR or another suitable system so that data are available for human resource forecasting for Rail Transport Committee projects and for the Commission.*

Internal Audit

Introduction

13.159 The Internal Audit unit of the Canadian Transport Commission was established in 1976 as part of the Financial Administration Branch and became operational in the following year. To date, two audits have been completed and two others contracted out to the Audit Services Bureau of the Department of Supply and Services. Auditing of grants and contributions, which form 95 per cent of the Commission's budget, has been minimal.

13.160 Our review of the unit included an examination of the reporting relationships, the planning function, the utilization of resources and the proposed mandate.

Observations and Recommendations

13.161 The establishment of the unit was in response to criticism from several central agencies on the lack of such an activity, and the desire by senior management to have some independent means of reviewing and assessing financial control systems. Responsibility for the operations of the unit was placed with the Financial Adviser who is the Senior Financial Officer in the Commission, and the

audit group reports to him. It is generally accepted procedure for an internal auditor to report to the head of the organization.

13.162 It was recognized that the relationship between the Chief, Internal Audit and the Financial Adviser was inappropriate if his independence was to be maintained. Because of this difficulty, the Commission decided to have the Audit Services Bureau perform the audits required on the financial systems that were controlled and operated by the Financial Adviser.

13.163 The successful operation of a well-staffed, technically competent internal audit group will depend, to a large extent, on the mandate given to the unit by senior managers in the Commission. Considerable effort has been expended in researching and drafting a comprehensive mandate for the Internal Audit group; however, it has not yet been approved by senior management.

13.164 Communication of an approved mandate throughout the Commission would remove the present uncertainty regarding the operations of the Internal Audit group and would promote acceptance of the group through all levels of the Commission.

13.165 Execution of the audit mandate should be by means of approved audit plans that specify the areas, systems, or projects to be examined. Such strategic plans should identify the audit universe, indicate the priority allocated to each project or audit assignment, and indicate the time frame within which the audit will be carried out. In our review of the planning process, we noted that there was no short-range or annual plan, nor was there any long-range plan covering the three-year audit cycle suggested in the Guide on Financial Administration.

13.166 Increasingly, departments and Crown corporations have made use of audit committees to receive and review audit reports from internal and external auditors to evaluate the accuracy, objectivity and completeness of the disclosure of the organization's financial operations. Such committees, which may include outside representation, are structured separately as a distinct committee or through a senior management committee that sits as an audit committee when required. At present the Commission is not using an audit committee; individual audit reports are made to the Financial Adviser.

13.167 *The Chief of Internal Audit should report directly to the President of CTC.*

13.168 *An audit committee composed of senior managers and a representative from outside the Commission should be established.*

13.169 An audit mandate should be approved by the President or audit committee or both.

13.170 An audit plan should be developed and approved by the audit committee.

Other Significant Issues

13.171 During our audit of the Commission's accounts, a number of concerns arose which were not major study topics but are important considerations in this Report. Because of the significance of these concerns and the impact that they may have on future CTC activities, we discuss them here.

Impact of the Department of Transport Branch Line Rehabilitation Program

13.172 Introduction. The Department of Transport initiated a program to aid in the rehabilitation of prairie branch railway lines owned by the two major railway companies. The Department has committed \$170 million toward the project over a three-year period. The rehabilitation program includes the reconstruction or upgrading needed so that a line of railway can carry loaded freight cars with a minimum gross weight of 220,000 pounds, and includes the construction of new rail links and the acquisition of railway cars and other specified equipment.

13.173 Payments to the companies during the fiscal year ended March 31 were as follows:

	<u>1979</u>	<u>1978</u> (millions of dollars)	<u>Total</u>
Equipment Purchases	40.5	5.3	45.8
Rehabilitation Work	41.9	7.4	49.3
	<u>82.4</u>	<u>12.7</u>	<u>95.1</u>

13.174 The Canadian Transport Commission is required to audit all expenditures made by the rail companies on this Program and to report to the Department of Transport.

13.175 Because the Government finances this Program, the road beds, track and equipment on the lines are upgraded at little or no cost to the railway companies involved. Operations of uneconomic branch lines are also subsidized by

the Canadian Transport Commission. Many of the prairie branch lines being rehabilitated are uneconomic branch lines. They continue to operate because of a ruling by the CTC or by the Governor in Council and form part of the railways' claim for compensation for the operation of a branch line which, under normal market conditions, would have been abandoned.

13.176 Observations and recommendations. Calculation of the amounts to be paid to the railways for the losses incurred in the operation of uneconomic branch lines is a complex operation. It has been described earlier in paragraph 13.43 of this Chapter.

13.177 Rehabilitation costs and equipment costs, financed by the Government, and the method of accounting used for these costs by the railway permit them to become part of the unit costs used in the subsidy claims paid by the CTC.

13.178 Because of the potential high dollar-impact of the prairie branch line rehabilitation program on the subsidy payments to be made by the CTC for uneconomic branch lines, a decision is required on whether the railways should be reimbursed twice for the prairie branch line rehabilitation program now being carried on in Western Canada.

13.179 Claims containing elements of these costs have already been received from the railways, and CTC officials are aware of the problem. Early resolution will aid in processing claims received by the Commission.

13.180 *The Commission should decide at an early date whether Canada's contribution to the Prairie Branch Line Rehabilitation Program should be permitted as an element of cost in uneconomic branch line subsidy claims made under the Railway Act.*

Exclusion of Bridged Traffic Costs and Revenues from Subsidy Payment Calculations

13.181 Introduction. Section 252 of the Railway Act defines the actual loss in relation to the operation of uneconomic branch lines as:

" 'Actual loss', in relation to any branch line means the excess of

- (a) the costs incurred by the company in any financial year thereof in the operation of the line and in the movement of traffic originating on or terminating on the line, over
- (b) the revenues of the company for that year from the operation of the line and from the movement of traffic originating or terminating on the line."

13.182 Observations and recommendations. In calculating the actual loss for a claimed line, the railway companies include only those costs and revenues associated with traffic originating or terminating on that line. Costs and revenues are not included in the calculation of actual loss, where they are associated with traffic which passes over, or is "bridged" over, the claimed line.

13.183 Existing statutes and regulations do not explicitly provide for the inclusion or exclusion of costs and revenues generated by traffic "bridged" over a claimed line. For this reason, disallowances amounting to over \$6.2 million up to and including 1975 from the Class I Railways had been made from railway claims for lines where the method of allocating on-line specific costs between bridge and local traffic was unsatisfactory to the Railway Transport Committee of the CTC. (Note: the years 1976 and 1977 are not included because the Commission has received only interim claims based on estimates.)

13.184 In January 1979 the Commission issued a decision that traffic bridged over a claimed line should not be included in the calculation of the actual loss on a claimed line.

13.185 As a result of this decision, subsidy payments for operating uneconomic branch lines will be paid to the railways on certain lines which, if all the traffic passing over them were included in the loss calculation, would either not be eligible for subsidy payments or would be eligible for substantially smaller amounts.

13.186 Although the question was decided on a legal interpretation of the Railway Act, the Commission stated "that it is not reasonable for the Railways to receive funds from the Federal Government on claimed lines which would still earn a profit on the traffic if all costs and revenues were considered and in effect therefore, are contributing to the Railways' profitability".

13.187 *In accordance with its mandate the Commission should investigate and report to the Minister of Transport on methods to include all costs and revenues in determining for subsidy purposes the actual loss incurred in operating an uneconomic branch line.*

Public Accounts Disclosure of Unpaid Rail Subsidy Claims

13.188 Introduction. Railway companies in Canada are subsidized under the terms of the Railway Act for actual losses incurred in operating uneconomic branch lines or uneconomic passenger train services. Determination of the actual loss is the responsibility of the Canadian Transport Commission. The technicalities of determining the actual loss for a specific railway operation is a lengthy process. The determination process is hindered by the time taken to research various costing issues and the time taken to receive evidence and render a decision on the various legal issues that arise from the application of the Act.

13.189 One major result of the time taken to process the claims is the growing backlog of those unpaid claims, amounting to \$407 million at March 31, 1979 (\$397 million at March 31, 1978). Disclosure of these amounts, of which \$250 million is expected to be paid to the railways, is not made in the Public Accounts of Canada.

13.190 **Observation and recommendation.** Each department and agency discloses in the Public Accounts of Canada those accounts properly chargeable to the current fiscal year but carried over to the following fiscal year. Along with this disclosure is a stylized explanation of why the accounts were not paid. The Canadian Transport Commission does not include in the figures reported in the Public Accounts any of the outstanding balances on claims submitted for losses under the Railway Act. Under present government accounting policy and practices, payments relating to debts incurred before the end of the year for work performed, goods received, services rendered, or resulting from contractual arrangements, are recorded as accounts payable only if made within 30 days following the end of the year. Claims made under that Act represent valid charges to the Commission.

13.191 Disclosure of the outstanding amounts claimed under the Railway Act, when aggregated with the regular accounts payable, would reveal the possible amounts that the Government of Canada may have to pay in the short run. Such disclosure would improve the credibility of the amounts now reported, and bring the reporting system more closely into line with the practice in the private sector of reporting all accounts payable.

13.192 Including the unpaid portion of these claims in some form of a statement or schedule in the Public Accounts would enable Parliament to have a better understanding of the Government's current liabilities which must be met in the near future. The omission of these amounts from the Public Accounts materially understates the liabilities of the Government of Canada.

13.193 *The Commission should confer with the Comptroller General to determine the most appropriate method of disclosing in the Public Accounts of Canada the unpaid balances of outstanding subsidy claims.*

Summary of Recommendations and Commission's Comments

Recommendations

Commission's Comments

Auditability of Payments Under the Railway Act

- | | |
|---|---|
| <p>13.59 The Commission should evaluate the accounting and financial systems in the railways that provide data to the CTC for use in subsidy determination.</p> | <p>A systems-based audit approach including the documentation of railway accounting systems has been adopted.</p> |
| <p>13.60 The CTC should clearly establish responsibility for the verification of service or output units and ensure that the necessary verification procedures are instituted.</p> | <p>Responsibility has always been established but the extent of verification has been conditioned by the availability of resources.</p> |
| <p>13.61 The CTC should establish procedures for the verification of basic accounting, financial, and statistical data used in developing specific and unit costs.</p> | <p>Procedures development is in progress.</p> |
| <p>13.62 The CTC should prepare written procedures sufficiently detailed to ensure that all essential audit tests are included. These procedures should be updated regularly.</p> | <p>Resources have been redirected for procedures development.</p> |
| <p>13.63 The CTC should acquire a state-of-the-art regression package for its own use and for use by the railways.</p> | <p>CTC is presently using adequate regression packages (e.g., SPSS). CTC has also requested improvements in regression analysis performed by the railway.</p> |
| <p>13.64 The CTC should independently run and check multiple and key simple regressions with a view to improving current models.</p> | <p>Agree. CTC has recently initiated this process. Resources requirements have been identified.</p> |

Recommendations

Commission's Comments

Program Effectiveness

13.77 The CTC should undertake to measure and report the effectiveness of its programs, where it would be reasonable and appropriate to do so, against criteria that are defined in a way that allows achievement to be measured, and should report the results to the Minister of Transport.

Subsequent to the completion in 1977 of the reorganization of the Railway Transport Committee, based upon the BMC report of 1975, the Railway Transport Committee undertook the redefinition and realignment of programs. In accordance with Treasury Board Directive 1976-25, the Railway Transport Committee established a computerized Management Information System which permits the development of program performance indicators, both efficiency and effectiveness. The information contained in the system is considered reliable, valid and complete for the period commencing April 1, 1978 and ending March 31, 1979. Efficiency indicators are being implemented and effectiveness indicators are being developed as quickly as possible. Report of CTC activities are contained in the CTC Annual Report, which is submitted to the Minister.

13.78 The Commission should implement the recommendations of the rail safety inquiry at an early date, thereby making available information needed to enhance measurement of the CTC's activities in support of rail safety.

These recommendations re accident and inspection program improvements and data base development were the substance of the BMC report of 1975. Given that the BMC recommendations included a massive reorganization, indepth consideration by the Railway Transport Committee was necessary prior to implementation of all recommendations. This reorganization was carried out in 1976 and 1977 calendar years. Resource limitations necessitated a phased approach to the implementation of aforementioned recommendations.

Recommendations

Commission's Comments

Computer Systems

- 13.85** An EDP advisory committee made up of senior managers from each Committee should be established to determine priorities and areas of need for EDP services.
- 13.86** CTC should develop and implement an action plan for defining and imposing procedures and controls on EDP functions.
- 13.87** The Costing and Subsidies System should be reviewed to determine whether the current system satisfies the requirements of the Commission.

The Commission has only recently established a Director General position responsibility for CTC Resources. Within the context of establishing a cost effective and efficient EDP support program both of these recommendations will be addressed and implemented as quickly as possible in a manner appropriate with CTC needs and available expertise.

Prior to the Auditor General initiating his review the CTC was committed to an indepth review of all Costing and Subsidies support systems in the Rail Economic Analysis Branch. This project has been delayed because of the various reviews by control agencies but is now ongoing and addressed the 'total' systems requirements and makes recommendations and value judgements on the existing Costing & Subsidies Systems.

Financial Planning, Budgeting and Reporting

- 13.97** The Commission should formalize its planning process by:
- defining and documenting specific operational objectives for its major organizational units; and
 - developing and approving annual operational work plans, including the tasks to be done, the resource requirements, the expected costs and the anticipated results to be produced by each manager.

Agreed. Steps are now being taken to define objectives and activities and the recently implemented Activity/Time Reporting System will begin to provide necessary data in 1980-81.

Agreed. Will be implemented for 1980-81 fiscal year.

Recommendations

Commission's Comments

- | | | |
|---------------|---|--|
| 13.98 | The Commission should expand its accounting and reporting system to integrate financial, operational and performance data and report this data to managers in comparison to their operational plans. | Agreed. Activity/Time Reporting System will be integrated for 1980-81 and work will be initiated immediately to integrate other systems, notably P/PICR. |
| 13.99 | In its Estimates presentation, the CTC should include a clear description of the objectives to be achieved, the activities on which resources will be expended, and the anticipated results. Similarly, action should be taken by the Commission to improve the accountability information contained in the Public Accounts. | Agreed. Will be implemented for 1981-82 Estimates presentation.

Agreed. Will be implemented as soon as situation permits. |
| 13.100 | The Commission should augment the information in its annual report so that it accounts more fully for its activities. In particular, the annual report should include financial and performance indicators on a comparative basis, the achievements of the Commission, and explanations about how resources were allocated and subsequently used. | Agreed. Will be implemented in next annual report. |

Recommendations

Commission's Comments

**Processing of Applications to Abandon
Branch Lines and Discontinue
Passenger Services**

13.112 The CTC should establish criteria and procedures for processing the outstanding branch line abandonment applications with the objective of reducing the processing time.

It is doubtful whether the span of time required to process such applications can be shortened solely by the implementation of a set of procedures considering circumstances over which we exercise little or no control, e.g.

- (a) Orders in Council establishing a "freeze"
- (b) Demands of interested parties for time to prepare submissions
- (c) Seasonal Considerations, such as seeding or harvesting which preclude people attending a hearing.

Additionally it should be pointed out that the committee does have a formal set of procedures (R-6315) which outlines what the application should contain and to whom it should be sent. Once the application is received, the Railway Transport Committee has an internal procedure which it follows.

13.113 The CTC should include in its annual report the status of the applications before the Commission for abandonment of branch lines and discontinuance of passenger services.

Agreed. Such information will appear in the CTC 1979 and subsequent annual reports.

Recommendations

Commission's Comments

Atlantic and Eastern Grain and Flour Subsidies

13.126 The CTC should inquire into the legal requirement to subsidize shipments of Ontario-grown grain and report to the Minister of Transport on possible measures to improve the administration of the subsidy.

The Commission has already investigated the legality of subsidy on Ontario grain, shipped from Bay Ports on traffic received ex Water, and ruled on this matter in R.T.C. Order R-26479 dated February 24, 1979.

13.127 The CTC should make provisional subsidy payments during the year. It should set the compensatory rates and finalize the subsidy payments using actual traffic volumes and costs. The cost and traffic data should be audited by the Rail Economic Analysis Branch.

The CTC will investigate the feasibility of adopting this procedure.

Payroll Costs Management

13.138 CTC should implement procedures to assess manpower requirements and to determine the number, level, type, location and cost of existing and forecast human resources.

The Commission developed a system to determine existing resources.

A plan to forecast human resources will be initiated immediately.

13.139 Where possible, the Commission should accumulate, analyse, and use accurate and valid data based on activity statistics to assist in determining manpower requirements.

Data base has been developed by Information Processing Services and analyses are being developed.

13.140 The Commission should analyse manpower information, including turnover, attrition, retirement, mobility and performance.

This has been done on an ad-hoc basis and has been formalized in monthly and annual reports.

<i>Recommendations</i>	<i>Commission's Comments</i>
13.141 The Commission should ensure that performance appraisals are completed on a regular basis to provide data for both manpower planning and training and development.	A program has been initiated to improve present percentage of completion.
13.148 CTC should implement a financial process that will identify and amalgamate both training and development budget estimates and costs, and permit the analysis of variances.	To be implemented through financial systems for fiscal year 1980-81.
13.149 Managers should be assigned budgets and be made responsible for monitoring expenditures and reconciling budgets.	Agreed. Will be implemented for 1980-81.
13.150 The CTC should implement a process for identifying training and development needs.	Policy in draft stage; will be promulgated soon.
13.151 CTC should formulate standards and criteria for evaluating all aspects of courses and employees' post-course performance.	We presently do not have the capability to develop standards.
13.152 CTC should establish specific learning objectives before it develops and implements training courses.	To be investigated by the Resources Management Group.
13.157 The CTC should use its manual human resource system to produce timely and accurate personnel reports for human resource planning and decision-making.	Implemented.

Recommendations

Commission's Comments

- 13.158** CTC should maintain the time recording information sub-system of the P/PICR or another suitable system so that data are available for human resource forecasting for Rail Transport Committee projects and for the Commission.

Information Processing Services is presently pursuing possible systems.

Internal Audit

- 13.167** The Chief of Internal Audit should report directly to the President of CTC.

- 13.168** An audit committee composed of senior managers and a representative from outside the Commission should be established.

- 13.169** An audit mandate should be approved by the President or audit committee or both.

- 13.170** An audit plan should be developed and approved by the audit committee.

As a result of the recent A-Base Review, a decision was taken to relocate the Internal Audit function within the Commission. These recommendations will, therefore, be implemented in the near future.

Other Significant Issues

- 13.180** The Commission should decide at an early date whether Canada's contribution to the Prairie Branch Line Rehabilitation Program should be permitted as an element of cost in uneconomic branch line subsidy claims made under the Railway Act.

The review of this matter is continuing and will be given high priority.

Recommendations

Commission's Comments

13.187 In accordance with its mandate the Commission should investigate and report to the Minister of Transport on methods to include all costs and revenues in determining for subsidy purposes the actual loss incurred in operating an uneconomic branch line.

The Commission is currently following the treatment prescribed by the statutes for the treatment of costs and revenues. Hence, any changes would require legislative action. Reviews to date indicate current methods, although not optimal, are best available. A formal investigation of this matter will be undertaken as soon as resources can be assigned.

13.193 The Commission should confer with the Comptroller General to determine the most appropriate method of disclosing in the Public Accounts of Canada the unpaid balances of outstanding subsidy claims.

The Commission undertakes to do so.

President's Comments

The Canadian Transport Commission is actively engaged in a process of change that will undoubtedly be enhanced by the comments of the Auditor General, as well as by the results of other studies conducted by the Treasury Board Secretariat and the Office of the Comptroller General. The detailed plans for the implementation of specific recommendations will, of necessity, reflect the availability of resources and the order of priority assigned to each recommendation. The desire of the Commission to proceed without delay to the implementation of changes may, however, be somewhat curtailed by the scarcity of resources. The Commission intends to work in full co-operation with the Office of the Comptroller General and the Treasury Board Secretariat in an attempt to rank priorities and establish the minimum resource requirements to implement the necessary changes effectively.

DEPARTMENT OF THE ENVIRONMENT

DEPARTMENT OF THE ENVIRONMENT

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DEPARTMENT OF THE ENVIRONMENT

SUMMARY OF FINDINGS, OBSERVATIONS AND RECOMMENDATIONS

Overview of the Department

Objectives and Organization

14.1 The main objective of the Department as set out in the Estimates is "to promote and undertake programs to protect and enhance the quality of the environment, and programs designed to improve the management and sustained economic utilization of the forest, wildlife and inland water resources of the nation."

14.2 The Department of the Environment was established in June 1971 by the Government Organization Act, *S.C. 1970-71-72, c. 42*. Its mandate included the responsibilities of the former Department of Fisheries and Forestry as well as a number of other responsibilities related to the environment that had been discharged by other government departments. On April 2, 1979, the Department's Fisheries and Marine Program became a separate department, the Department of Fisheries and Oceans. References made in this Chapter to "Department of the Environment", or simply "the Department" exclude the Fisheries and Marine Program.

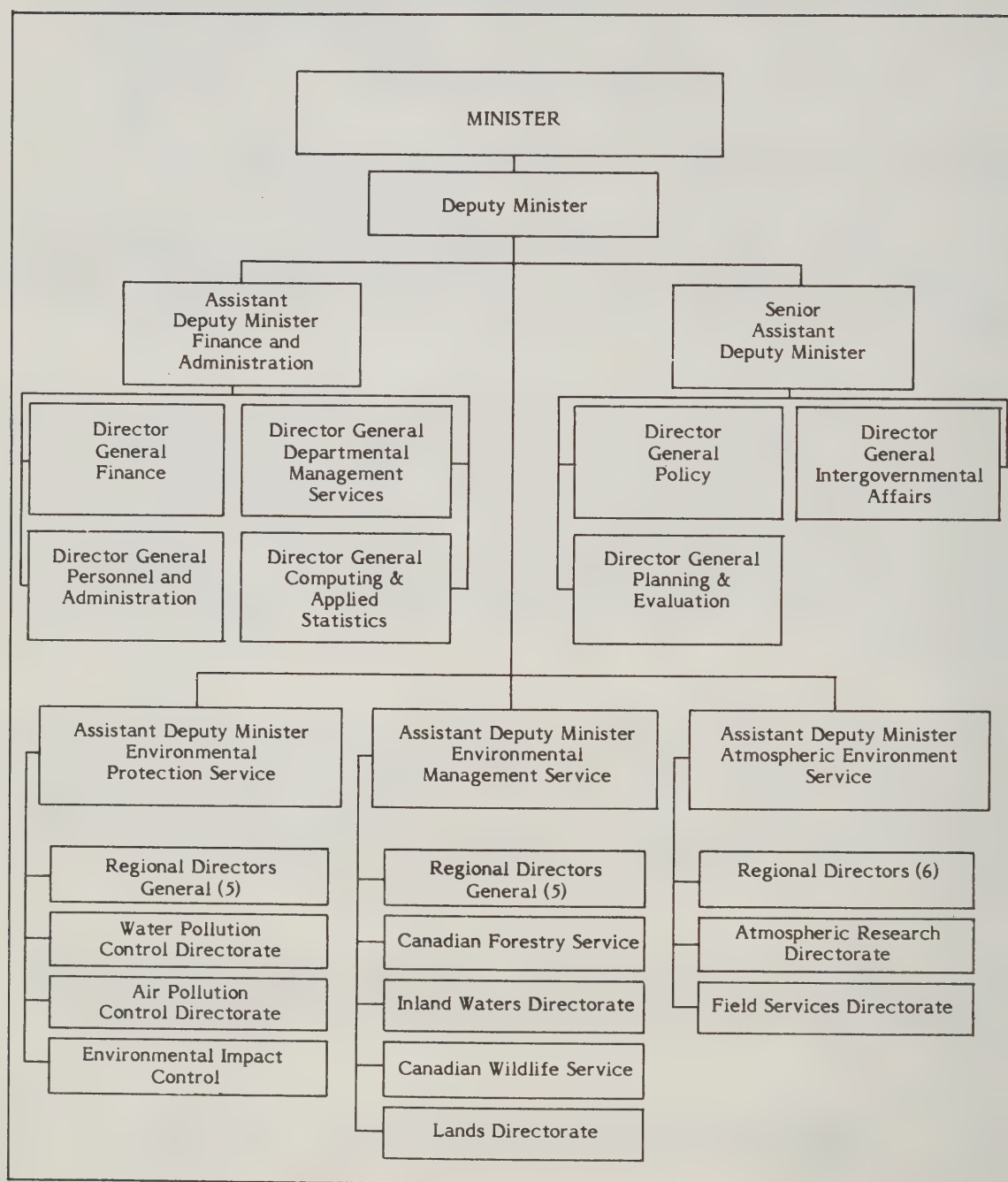
14.3 An important organizational change occurred early in June 1979, when the Parks Canada Program was transferred to the Department of the Environment from the Department of Indian Affairs and Northern Development. The Parks Canada Program is responsible for developing, operating, maintaining and preserving existing national parks, canals and historic sites. The Program also provides information and conducts research on historic parks and sites.

14.4 The Parks Canada Program is a major addition to the Department of the Environment. Operating and capital expenditures were approximately \$200 million for 1978-79 and person-years allocated for that year were in excess of 5,000.

14.5 A partial organization chart of the Department as at March 31, 1979 is shown in Exhibit 14.1.

14.6 Supported by the Administration Program, three major Services carry out activities designed to meet the Department's objective. The function of each

DEPARTMENT OF THE ENVIRONMENT
PARTIAL ORGANIZATION CHART - AS AT MARCH 31, 1979



Service, their budgeted expenditures and authorized person-years, as set out in the 1978-79 Estimates, are as follows:

	1978-79 Estimates	
	<u>Expenditures</u> (\$ million)	<u>Authorized</u> <u>person-years</u>
The Environmental Protection Service (EPS) provides environmental protection and control, co-ordinates activities with the provinces, industry and public for air pollution, water pollution, waste management, environmental impact assessment and control, and plays a role in environmental emergencies.	38	788
The Environmental Management Service (EMS) provides support and leadership for the management and use of inland waters, conservation of wildlife, and for management and use of forest and land resources.	125	3,151
The Atmospheric Environment Service (AES) provides meteorological and ice information services, and encourages and promotes the application and development of meteorological science.	<u>104</u> <u>267</u>	<u>2,512</u> <u>6,451</u>

Special Characteristics

14.7 The Department deals with complex environmental issues. Its activities, such as developing and implementing environmental quality objectives and protection measures, conducting environmental research, technological development, and collecting, analysing and reporting climatological and migratory bird statistics, are often long-term programs. They require longer-term planning than most government programs and, as well, demand highly sophisticated scientific and technical support staff and equipment.

14.8 Departmental jurisdiction and responsibility for initiating action and enforcing regulations often overlap the responsibilities of other federal departments and provincial governments. As well, the Department's operations are decentralized and much of the responsibility for delivering programs rests with the regions.

Scope of the Audit

14.9 Our comprehensive audit of the Department of the Environment concentrated on its financial and management control systems and on the systems in place to report to managers, central agencies and Parliament on the Department's activities. In planning and selecting areas for examination, we considered the objectives of the Department, the nature and significance of its expenditures, the sources of its revenue, and the types and value of its assets.

14.10 We addressed the following major areas:

- financial operations;
- internal audit function;
- regulatory process for environmental protection;
- management of research and development;
- electronic data processing;
- management of real properties; and
- payroll costs management.

14.11 Because the activities of the Fisheries and Marine Program were being organized into a separate department during our audit, our findings, observations and recommendations pertain only to the environmental and administrative activities of the Department.

14.12 It should be noted that, at the time of our examination, the Department was completing a major two-year internal review of its activities. The results of this "Zero A-Base Review", conducted in co-operation with the Treasury Board Secretariat, will, we believe, make a positive contribution to improving management in the Department.

14.13 We have provided the Department with a detailed report of our findings, observations and recommendations which are summarized in the balance of this Chapter.

14.14 We appreciate the co-operation that was extended to us by departmental personnel during our examination.

Summary of Audit Observations

14.15 To meet its responsibilities "to protect and enhance the quality of the environment", the Department carries out regulatory functions, conducts research programs and, in addition to its other responsibilities, provides information to the

Government and to the public concerning the environment. The complexity of its activities and the degree to which they are decentralized demand that the Department have sound internal systems for planning and controlling its programs and resources.

14.16 We found that the Department lacked adequate internal information to manage its available financial, human and physical resources. We noted serious weaknesses in the areas of planning and control. These were compounded by the fact that:

- appropriate policies and procedures were not adequately developed or documented in many of the areas reviewed; and
- there was a lack of clarity in defining and communicating the relationship between the roles and responsibilities of headquarters' managers and the functional groups within each of the three Services.

14.17 Recent organizational changes in the Department have directed the attention of senior managers toward day-to-day concerns. Although the Zero A-Base Review focused attention on the Department's planning processes, we found that, generally, the setting of priorities and the development of essential long-term plans had not received sufficient attention. The Department had not documented procedures for preparing department-wide long-term plans, nor were short-term financial requirements tied to short-term financial plans. Project planning and control systems for managing research and development activities and a planning mechanism for all real property requirements were absent on a department-wide basis.

14.18 The Department's inventories of personnel, real properties and electronic data processing equipment were inaccurate and incomplete.

14.19 Appropriate cost accounting systems were not in place to provide information on major activities, including research and development, real properties, computerized information services and those involving cost recovery. We noted that variance analyses were conducted on an informal or irregular basis or were not carried out at all.

14.20 We concluded from our examination that, where it would have been reasonable and appropriate to do so, the Department had not established satisfactory procedures for measuring and reporting on the effectiveness of the regulatory programs of the Environmental Protection Service.

14.21 The Department is aware of the weaknesses we have identified and, in several cases, has initiated plans for corrective action. We will continue to

monitor the Department's response to our recommendations and the progress it achieves in implementing its plans.

Financial Operations

Introduction

14.22 Our audit of the Department's financial management and control systems was designed to answer the following questions:

- Are financial and operational planning and reporting adequate for management and for Parliament?
- Are adequate financial policies and procedures in place?
- Are financial controls reliable?
- Are revenue and cost recovery procedures satisfactory?

14.23 We concentrated on the way in which the Department carried out its financial and operational planning, the procedures used to report financial information to management and to Parliament, and the policies and practices related to recovering costs for services provided by the Department to other government departments and to the public. In addition, we followed up on observations made in our 1978 annual Report.

General Conclusions

14.24 Our examination of financial operations revealed a number of serious weaknesses in financial management and control:

- Financial plans and reports to senior management did not include operational information. Managers require both financial and operational information to ensure that funds are properly allocated to programs and activities, and to permit a clear understanding of the relationship between expenditures made and results achieved. Although reports to Parliament conformed to Treasury Board directives, they did not contain the operational information needed to permit Members of Parliament to assess what the Department had achieved in relation to the funds provided.
- There were weaknesses in the documentation of financial policies and procedures. In some cases, documentation did not exist and, where it did exist, it was often incomplete.
- Financial control procedures were not always adhered to, particularly with respect to:

- commitment control;
 - verification prior to payment;
 - documentation supporting payments; and
 - capital asset records.
- Procedures used to control and report revenue and cost recovery were inadequate, and opportunities to develop other sources of revenue and to extend cost recovery had not been sufficiently explored.

14.25 The Department has recognized these weaknesses and has taken a number of corrective actions. These include:

- introducing a new "program activity structure" to provide operational information;
- developing an action plan to complete the documentation and implementation of financial policies and procedures; and
- developing procedures to improve control over financial signing authorities.

Observations and Recommendations

14.26 Financial and operational planning and reporting. Although the Department had issued procedures for preparing Program Forecasts, Estimates and financial plans, there were no documented procedures for analyzing alternative methods of achieving program objectives (strategic planning) or for integrating financial and operational information in the development of departmental long-term plans. This would be useful for managers in determining priorities and resource needs and, as well, could form a basis for developing short-term plans and Estimates.

14.27 In Services other than the Environmental Protection Service, current operational work plans were not integrated with financial plans. The monthly financial management report, compiled from data produced by each Service, provided financial information but did not include operational data. Hence, managers did not have the information to permit them to clearly understand the relationship between expenditures made and results achieved by the Department.

14.28 *The Department should document procedures for developing a long-term plan, and for integrating financial and operational data in both its long- and short-term plans and reports.*

14.29 Reporting to Parliament. We examined the adequacy of the information in the Estimates presented by the Department to Parliament, taking as a

base the Third Report of the Standing Committee on Public Accounts and the observations made in Chapter 6 of our 1978 annual Report.

14.30 We found a number of weaknesses in the format of the Estimates that limit proper disclosure. For example:

- performance information was not included;
- there was no disclosure of operational plans or objectives;
- assumptions used by the Department in preparing the Estimates were not explicitly stated;
- there was a lack of information regarding the types of services to be provided by the Department in relation to the appropriations sought.

Although the objectives and sub-objectives of the Department are stated in the Estimates, they could not be related with certainty to specific activities or organizational units in the Department.

14.31 *In consultation with the Treasury Board, the Department should review the form of the Estimates, with a view to improving the disclosure of information to Parliament.*

14.32 **Documentation of financial systems, policies and procedures.** In recent years, the Department has made notable progress in developing a Financial Directives Manual to document the role of the financial function and related policies and procedures. We found, however, that the Manual was incomplete and certain sections were already out of date. Several important sections listed in the table of contents had not been completed. These sections included Policy Objectives and Responsibilities for Financial Administration, Accounting and Control of Expenditures, Accounting and Control of Revenue, Financial Reporting and Year-End Procedures.

14.33 *The Department should complete and up-date its financial policies and procedures and document them in the Financial Directives Manual.*

14.34 **Internal control systems.** We found that the Department had not always adhered to the requirements of the Financial Administration Act regarding commitment, spending and payment authorities. For example:

- The commitment control system, intended to provide the Department with a current record of uncommitted balances, was not sufficiently reliable. In the Atmospheric Environment Service, instances were noted where funds were not designated as

committed when the commitment was made, but only when invoices were paid. There were other instances in the Department where commitments were not entered in the appropriate records.

- Proper spending and payment authorities are intended to ensure that payment is made only for goods and services that have been received, where the expenditure has been properly authorized, and where funds are available for payment. These authorities were not always adhered to. For example, we found instances of payment requisitions which lacked supporting documentation and further instances in which expenditures for goods and services were approved by unauthorized personnel.

14.35 In addition, invoices were not always verified (pre-audit) before they were paid. We noted instances where travel claims and staff pay forms were not pre-audited to ensure that employees were being reimbursed or paid only amounts to which they were entitled.

14.36 Weaknesses were also noted in the maintenance of the Department's capital asset records. For example, they were often incomplete or out-of-date and no written procedures existed for physical inventory counts.

14.37 *The Department should improve its internal control system by ensuring compliance with the commitment, spending and payment requirements of the Financial Administration Act, by ensuring that an independent pre-audit is always carried out and by maintaining appropriate capital asset records.*

14.38 **Revenue and cost recovery.** For the year ended March 31, 1979, the Department forecast revenue and cost recovery of \$27.3 million. This amount (of which \$16.5 million is for meteorological services provided to the Department of Transport) represents expected recoveries for services provided primarily to other government departments. It also includes revenue from fees and charges to the private sector relating mainly to permits for hunting migratory birds and for cost-shared water quality projects and agreements.

14.39 In May 1977, the Department issued a directive called the Revenue and Cost Recovery Policy. The Policy requires each Service to prepare a Schedule of Charges, listing fees or rates for services offered. The Schedules are submitted to the Finance Directorate and are reviewed to ensure that they conform to the Policy. They are then submitted to the Minister for authorization and are published in the Canada Gazette.

14.40 In a number of cases, we found that the Services did not adhere to the requirements of the Policy when they were developing their 1978-79 Schedules of

Charges. The Environmental Management Service, for example, was still in the process of implementing the Policy. Its Schedule of Charges was prepared with incomplete information and did not include charges to other government departments and to customers outside Canada as the Policy requires. Moreover, the Schedule was not approved by the Minister.

14.41 We noted weaknesses in the procedures used to verify amounts billed. For example, there was no adequate system to ensure that correct charges were made to customers or that price additions and extensions were checked on billings.

14.42 Internal accounting controls were inadequate to ensure that funds were not spent in excess of costs recovered. For example, in one region, a recovered amount of \$159,000 was allocated twice and, in effect, was spent twice.

14.43 The departmental financial management report did not include information relating to revenue and cost recovery. Senior managers, therefore, were not formally and regularly provided with revenue and cost recovery data. The Revenue and Cost Recovery Policy does not set out reporting requirements or procedures. Although reports were prepared within the Services on revenue and cost recovery, they covered only non-government revenue and did not include costs recovered from government departments and agencies. Furthermore, reports on revenue and cost recovery from the Services did not include analyses explaining differences between expected and actual amounts.

14.44 As part of the Department's Zero A-Base Review, several Task Force reports identified areas in which the Department could recover costs. Follow-up reports on several of the areas had not been completed at the time of our audit.

14.45 There are areas, in addition to those identified by the Task Force, that the Department might consider when examining the issue of cost recovery. These include charging third parties for research and development expenditures, charging for consulting services provided by the Research Directorate and charging for special consulting services for climatic impact research.

14.46 *The Department should ensure that the Schedules of Charges are prepared and approved in accordance with the Department's Revenue and Cost Recovery Policy.*

14.47 *The Department should strengthen internal controls over its cost recovery charges and expenditures, and should improve reporting on revenue and cost recovery.*

14.48 *The Department should explore further areas for revenue and cost recovery and should follow-up on those areas already identified.*

Follow-up on Previous Years' Observations

14.49 Each of the following observations was included in our 1978 annual Report. The Department has made some progress in addressing the weaknesses, although our monitoring activities during the year revealed that it has not fully resolved all of the reported deficiencies.

14.50 **Flood control.** In our 1978 annual Report (paragraphs 3.29 to 3.34), we referred to our examination of three flood control programs--Fraser River, B.C., South Western Ontario and the Montreal area. We stated that, in our opinion, the Department did not demonstrate in the latter two programs due regard for economy. The Department testified before the Standing Committee on Public Accounts that it had taken a number of remedial measures or that these were in the final phase of planning. The Committee, in its Second Report, dated March 23, 1979, recommended that the Department stringently adhere to the procedural improvements reported by the Deputy Minister. The Committee also recommended that the Office of the Auditor General continue to monitor departmental implementation of these improvements. We will do so during our 1979-80 audit.

14.51 **Unnecessary costs resulting from project approval based on inadequate information.** Our 1978 annual Report (paragraph 21.4) referred to \$568,000 spent unnecessarily on the Fraser River Valley flood control project to start construction of a dyke. The project had been approved without considering the findings of a study which identified the adverse effect that the reduction of a marshland would have on the food organisms for salmon. Our Report also stated that the Indian band, who owned the land which would have been protected by the dyke had it been completed, was claiming compensation for the Department's action in requesting that the dyking work be stopped. Although the Department has been discussing this matter with the band, no satisfactory agreement has yet been reached.

14.52 **Land rental paid under long-term lease for property not being occupied.** This observation, referred to in our 1978 annual Report (paragraph 22.11) as well as in those of 1977 and 1976, stated that the Department is paying an annual rental of more than \$241,000, under a long-term lease due to expire in 2045, for property that it is not occupying. During 1978-79, the Department again paid annual rental of over \$241,000 and municipal taxes of \$56,000.

14.53 **Contracting procedures.** Deficiencies in contracting procedures in the Department were noted in our 1978 annual Report (paragraphs 9.60 to 9.69). The Department has dealt with many of these deficiencies by including a directive on contracts in the Financial Directives Manual and by issuing policies on signing

authorities. However, there are weaknesses which still have to be addressed. These are:

- the practice of contractors performing work before the covering requisitions are issued and the contract let;
- audits not performed on service contracts containing an audit clause; and
- inadequacies in the pre-audit function.

Internal Audit Function

Introduction

14.54 The internal audit function is carried out by the Internal Financial Audit Branch, which consists of a Director and three assistants. Most of the audits were conducted under contract by staff of the Audit Services Bureau of the Department of Supply and Services. In 1978, when a revised departmental policy on Internal Financial Audit was issued, the Director of the Branch became responsible directly to the Deputy Minister.

14.55 We examined the mandate for the internal audit function and the way in which audits were being planned, reviewed, reported and followed up.

General Conclusions

14.56 The role of the Internal Financial Audit Branch needs to be reassessed. Its mandate has been restricted to carrying out financial audits and there were deficiencies in its planning, controlling and reporting activities. In addition, the Internal Audit Committee has not given sufficient guidance and support to the internal audit function.

Observations and Recommendations

14.57 **Mandate.** The mandate of the Branch limits its activities to financial audits. An expanded scope covering all financial and management processes and systems is needed so that all operations are subject to regular independent review and appraisal.

14.58 With the significant degree of decentralization in the Department, it is essential that independent reviews be conducted throughout the Department to assist operating and senior managers in carrying out their control responsibilities.

14.59 *The Department should expand the mandate of the internal audit function to ensure coverage, on a regular basis, of all financial and management processes and systems.*

14.60 **Audit planning.** The long-term plan for internal audit consisted of indicating the year in which each organizational unit identified for audit was to be audited over the three-year cycle prescribed by the Treasury Board. From the long-term plan, the Internal Financial Audit Branch prepared annual work plans, including:

- information related to the timing and estimated cost of audits;
- whether full or partial audits were to be performed; and
- when the last audit had been conducted.

14.61 The long-term plan did not contain sufficient information on the nature and extent of each unit's operations, systems, outside revenue and assets under control. A more detailed plan is needed which would also include a description of the entire audit domain, an indication of priorities and an identification of department-wide control issues to be examined, such as payroll, contributions, contracts and travel. There is a similar need for the annual work plan, when submitted for approval, to include more information on the scope and objectives of each audit and to rank in priority the audits to be carried out.

14.62 *The Internal Financial Audit Branch should improve its long- and short-term audit planning by providing more information on such matters as audit scope and objectives, priorities and significant characteristics of the entities to be audited.*

14.63 **Control over the conduct of audit work.** The Internal Financial Audit Branch determines the scope of each audit, contracts out the audit work, reviews the findings, sends the audit report to departmental officials and inquires about corrective action being taken. We found, however, that the Branch had not exercised control over the preparation of detailed audit programs, nor had it taken part in controlling the performance of the audits. Further, the Branch had not participated in briefing the management of the audited unit on findings when an audit was completed.

14.64 *The Internal Financial Audit Branch should exercise greater control over the conduct of audits.*

14.65 Reporting. The Internal Financial Audit Branch is required to distribute a copy of each audit report to:

- the officials directly responsible for taking corrective action and their superiors, usually the responsible Assistant Deputy Minister; and
- the Assistant Deputy Minister, Planning and Finance.

Also, the Branch is required to send a summary of each report to the Internal Audit Committee and to submit an annual report to the Deputy Minister.

14.66 Approximately 35 audits have been conducted each year during the three-year period under review. Generally, the audit reports were timely; however, the Branch did not forward copies of individual reports or summaries of them to the Internal Audit Committee. The Branch was not prompt in submitting its annual report to the Deputy Minister.

14.67 *The Internal Financial Audit Branch should submit individual audit reports to the Internal Audit Committee and should issue its annual reports promptly.*

14.68 Internal Audit Committee. The revised departmental policy on Internal Financial Audit, issued in 1978, provides for the Internal Audit Committee to be made up of the Deputy Minister, as Chairman, all Assistant Deputy Ministers, and the Director General, Finance. At March 31, 1979, the Committee had met only twice since its formation in 1977. At the time of our audit, it had not approved resources for the internal audit function for the coming year nor had it been provided with the information to enable it to take action on the findings of previous audits. Thus, it was apparent that the Department's Internal Audit Committee was not providing active guidance and support to the internal audit function.

14.69 *The Internal Audit Committee should give active guidance and support to the internal audit function through greater involvement in its planning, staffing and reporting activities and in expanding its mandate.*

Regulatory Process for Environmental Protection

Introduction

14.70 The Department is responsible for protecting and enhancing the quality of the environment. The Environmental Protection Service (EPS) administers the regulatory processes related to this responsibility. These include developing and implementing controls over:

- industrial discharge;
- products that contain toxic substances; and
- dumping of pollutants at sea.

14.71 Developing and enforcing pollution controls to achieve the intended benefits entail significant costs to industry and Government. Systems and procedures for planning and controlling regulatory programs and for measuring and reporting on their effectiveness are essential.

14.72 We examined the management systems and procedures used to identify the need for, to develop, and to monitor regulations, guidelines, environmental quality objectives and inter-jurisdictional agreements. Our audit encompassed all regional and headquarters regulatory components of the air pollution, water pollution, ocean dumping and environmental contaminants control programs in EPS. In addition, we examined related activities in the other Services.

General Conclusions

14.73 Environmental protection is an area of overlapping jurisdictions. EPS has tried to co-ordinate its environmental protection programs with those of other federal and provincial agencies. The mechanisms for co-ordinating these programs, however, generally have not incorporated appropriate planning, control and evaluation systems and procedures to support EPS in carrying out its regulatory responsibilities.

14.74 We observed that there were deficiencies in EPS planning systems for identifying pollution problems and for ranking them according to their severity. In developing regulations and guidelines to solve pollution problems, we found that EPS had not consistently applied generally accepted techniques for planning and controlling its projects. EPS had not established satisfactory management systems to ensure that the national regulations and guidelines which had been developed were uniformly implemented and enforced across Canada.

14.75 We concluded that it would be reasonable and appropriate for EPS to measure and report on the effectiveness of its regulatory programs; however, EPS did not have satisfactory systems and procedures for doing so.

Observations and Recommendations

14.76 Program objectives and structure. A prerequisite to evaluating program effectiveness is the existence of clear objectives. Further, the program's activities and objectives must be clearly and logically related.

14.77 We found that the program objectives of EPS were generally clear enough to be evaluated in terms of the extent to which they have been achieved. In addition, we found that the structures of the regulatory programs were fundamentally sound; that is, the program components, output and objectives were logically linked. The presence of generally clear and measurable objectives, together with the logical structure, led us to conclude that it should be possible to evaluate the effectiveness of the regulatory programs.

14.78 To evaluate the programs, it is necessary to have an evaluation plan which describes in detail the nature, timing and scope of the effectiveness measurement procedures. At the time of our audit, only the water pollution control program had developed such a plan; however, it had not yet been implemented.

14.79 *The Department should establish and implement evaluation plans for its regulatory programs.*

14.80 **Identifying and ranking pollution problems.** In setting priorities for regulating industry sectors, it is necessary for management to identify and rank pollution problems according to their severity.

14.81 In addition to the Department of the Environment, other departments and agencies, like the Department of National Health and Welfare, are responsible for research on the effects that various concentrations of pollutants have on humans and on the environment. Previous studies by the Science Council of Canada and by the Department of the Environment recommended that more extensive and co-ordinated research be done in this area to assist the Department in its regulatory function.

14.82 Pollutant hazard research data can be used to establish environment concentration objectives for each pollutant. The Department had developed such objectives for only a few pollutants. For example, the Inland Waters Directorate had drafted national objectives for only 5 of the 17 pollutants that have had discharge limits set in regulations and guidelines under the Fisheries Act, R.S.C. 1970, c. F-14. Regulatory agencies in other jurisdictions, however, have set at least interim objectives for all of these and, in the Department, the Inland Waters Directorate has participated in establishing some objectives under specific inter-jurisdictional agreements.

14.83 It is important for regulatory agencies to monitor levels of pollutants to determine the risks they present to humans and to the environment, and to compare observed levels with environmental quality objectives. We noted that, in the water pollution control program, the Department had frequently not reported water quality surveillance results in terms of water quality objectives.

14.84 Under the primary EPS strategy of controlling pollution at its source, inventories of discharge sources and volumes are required for ranking pollution problems according to their severity. We observed that, although the other regulatory programs had conducted comprehensive inventories of pollutant discharge, the water pollution control program had not done so.

14.85 Because of these deficiencies, the Department did not have all of the information it needed to identify and rank pollution problems. It had set its priorities for regulating pollution in the industry sectors primarily on the basis of referrals and reviews of other regulatory agencies. At the time of our audit, however, the air pollution control program was beginning to develop a formal ranking procedure.

14.86 *The Department should establish systems and procedures, where they do not now exist, for identifying and ranking pollution problems as a basis for setting priorities for developing regulations in its pollution control programs.*

14.87 **Developing regulations and guidelines for pollution control.** Developing pollution control regulations and guidelines requires extensive resource commitments over long periods of time. Accordingly, formal project planning and control systems are required. We found that there were inadequate project planning and control systems in the water pollution control program. For example, there was no comprehensive schedule for developing regulations in the program. Although such systems existed in the air pollution and environmental contaminants control programs, we found that schedules and status summaries were generally not kept current.

14.88 These deficiencies, along with resource limitations and the need for extensive consultation with outside parties, have resulted in unrealistic plans in the water pollution control program. For example, at the time of our audit, regulations had been developed for only 5 out of 28 previously identified industry sectors. The original target date for applying these regulations was 1976.

14.89 *The Department should ensure that project planning and control systems are improved for the water pollution control program. It should also ensure that schedules for developing pollution control regulations and guidelines in the other programs are kept current.*

14.90 **Implementing and enforcing pollution control measures.** The Department has delegated much of the responsibility for implementing and enforcing national regulations and guidelines to provincial agencies. Uniform national application of these controls necessitates consistent planning, control and reporting systems across the regions. To a large extent, such systems have been documented by program management.

14.91 The Department has frequently delegated implementation and enforcement responsibilities to the provinces without first reaching agreements with them on detailed working arrangements. In the absence of these arrangements, EPS and the provinces have neither actively nor uniformly implemented certain regulations and guidelines. For example, the 1978-79 Program Forecast of the Department estimated that 110 plants fall under existing air pollution control regulations and guidelines and that 3,007 plants fall under existing water pollution control regulations and guidelines. In our audit, we estimated that only 41 per cent of those forecast by the air program and 11 per cent of those forecast by the water program have been covered by implementation activity.

14.92 According to the Department, this lack of progress was due, at least in part, to inaccuracies in the original forecast. These inaccuracies may have arisen either because many plants which discharge waste into municipal sewers have been exempt from guidelines or because gaps in the inventory data existed at the time of the forecast. However, an internal study attributed non-uniform implementation of pollution controls to jurisdictional difficulties and resource shortages.

14.93 Water pollution control guidelines permit EPS to negotiate a compliance schedule with each plant, in order to allow a reasonable period for it to install pollution abatement equipment. However, we noted that in five industry sectors covered by guidelines, most of the plants had no compliance schedule. We also observed that, in some cases where the provinces had negotiated the compliance schedules, EPS did not receive copies of them.

14.94 Regulations and guidelines under the Fisheries Act, *R.S.C. 1970, c. F-14*, require companies to regularly monitor and report their plants' discharge of pollutants. In our audit, we found that EPS did not have control systems to ensure that it received these reports and verified their content. We found that most plants in five industry sectors were not regularly monitoring and reporting discharge. Where these plants report to provincial agencies, EPS did not always receive summaries of the reports. In addition, EPS had no systematic quality control procedures to verify the accuracy of reported data. A recent departmental Zero A-Base Review recommended that EPS conduct a more extensive audit of compliance with regulations and guidelines. Similarly, under the Clean Air Act, *S.C. 1970-71-72, c. 47*, companies are required to demonstrate that they have complied with the regulations by testing the source of pollution in the presence of an inspector. However, many plants in the secondary lead smelting industry, which was regulated in 1976, still have not conducted these tests.

14.95 In the water pollution control program, the Department has developed guidelines whereby toxicity tests, based on the best practicable control technology, are used as an indicator of whether the discharge is "deleterious" to fish. The Department had conducted a number of these tests in plants subject to the toxicity guidelines; however, many similar plants remain to be tested. Complete monitoring also requires surveillance of the general quality of the water around

plants and the health of other organisms in the area. This monitoring is necessary for identifying where more stringent site-specific controls are required to protect water uses. Only two out of the five Regions have conducted such surveys; moreover, these have covered only a few plants. The departmental study referred to previously also recommended reviewing the water quality monitoring programs to ensure that they provide more appropriate evaluation data.

14.96 Enforcement of regulations is necessary when a company violates either discharge quality standards, toxicity guidelines or reporting requirements. In the water pollution control program, only two regions receive information on violations of discharge guidelines, and they receive it only for a few industry sectors. We also observed a number of cases in which EPS had either not acted to enforce regulations when provinces had failed to act on known violations, or where EPS tests showed that discharges exceeded toxicity guidelines. In addition, only a few companies had been prosecuted under the provisions of the Fisheries and Clean Air Acts.

14.97 *The Department should ensure that agreements with the provinces include detailed working arrangements covering provincial responsibilities for implementing and enforcing pollution control regulations and guidelines.*

14.98 *The Department should follow established procedures for monitoring the extent to which pollution control regulations and guidelines are being followed, and should take the necessary steps to enforce regulations, as required.*

14.99 **Measuring and reporting program effectiveness.** The Department did not have systems for adequately identifying and measuring the effects of its programs. The Department has primarily measured discharge volumes, rather than measuring the general quality of the environment. The water quality measurements that it did make were not representative because they concentrated on boundary waters and on a few specific basins. Therefore, it was not possible to know the overall environmental condition or to measure completely the extent to which objectives like "the protection and enhancement of the natural environment" were being met.

14.100 Another major requirement in effectiveness evaluation is a system to provide for the analysis and reporting of effectiveness measurements. "Status reports" are used for this purpose. In the water pollution control program, national status reports have been issued for only three of the eight industry sectors, while the air pollution control program has issued internal status reports on only two out of three sectors. These reports did not indicate the completeness or accuracy of the data used in preparing the reports, and therefore it was unclear how much reliance could be placed on the published results.

14.101 "Baseline data" include inventories of production processes and volumes as well as surveys of company-reported data on discharge volumes. The

Department requires baseline data for measuring and reporting effectiveness. In its pollution control programs, it requires baseline measurements both for uncontrolled (untreated) discharge as well as for discharge which existed at the time regulations or guidelines were adopted. (These may differ, since many firms used some pollution control technology before Government required them to do so.) We found that, where the Department had prepared baseline reports, the data were incomplete or unverified. For example, on the effective date of the regulations, a status report on 90 secondary lead smelters contained no actual data on discharge for 75 plants.

14.102 We concluded from these observations that the Department had not satisfactorily measured, analysed or reported on the effectiveness of its regulatory programs where it would have been reasonable and appropriate to have done so.

14.103 *The Department should establish systems and procedures to provide comprehensive and accurate reports on the effectiveness of its pollution control programs.*

Management of Research and Development

Introduction

14.104 The Ministry of State for Science and Technology (MOSST) has defined research and development (R&D) as "... creative work undertaken on a systematic basis to increase the stock of scientific and technical knowledge and to use this knowledge in new applications." R&D activities are an integral part of the Department's mandate as specified in federal legislation such as the Clean Air Act and the Forestry Development and Research Act, R.S.C. 1970, c. F-30.

14.105 The data, shown in the March 1979 MOSST report on Federal Science Expenditures and Personnel, indicate that forecast R&D expenditures in the Environmental Services Program of about \$63 million, ranked as the sixth largest R&D program expenditure in the Federal Government. The Department's R&D group (1,591 person-years) ranked as the fifth largest R&D personnel group in all federal government programs during 1978-79.

14.106 The Department has not regarded R&D as a separate activity because it considers scientific activities, including R&D, as mission-oriented activities which are carried out to support the attainment of individual program objectives. Though R&D is common to the three Environmental Services, each has developed its own management structure, systems and procedures for its R&D activities. To some degree, procedures have varied because R&D activities are characterized by unique, as opposed to repetitive, process-type output. Hence, the size, time frame and scope of the activities and the scientific/technical

resources of an R&D project vary, necessitating a reasonable level of flexibility in formal management systems and procedures. We recognize that uncertainty is inherent in R&D work and that management systems and procedures should reflect and support the creativity, flexibility and scientific judgment required for productive R&D activities.

14.107 We examined the management systems and procedures for planning, organizing and controlling the Department's R&D activities. Our review was designed to assess the adequacy of the systems and procedures for ensuring that the Department manages its R&D activities economically and efficiently.

14.108 We reviewed the activities of a number of the major organizational groups conducting research and also selected projects for further examination. The R&D projects that we reviewed included representative projects from the diverse range of activities within the selected R&D responsibility centres. These centres represented approximately 525 person-years as well as \$15 million of operating and \$2 million of capital expenditures during 1978-79.

14.109 Our audit did not address the technical performance and content of the R&D work itself. Hence, our R&D observations, recommendations and general conclusions should not be looked upon as a commentary on the scientific quality or output of the Department's R&D activities.

General Conclusions

14.110 We identified a number of initiatives at various management levels directed toward improving the management of R&D activities and projects. However, because these efforts have not always been properly co-ordinated, the quality of the procedures used for planning, organizing and controlling R&D activities has varied widely. Although some of these procedures reflected management practices appropriate to R&D activities, others did not. The extent of the differences in the procedures followed indicated that the Department had not defined and established a consistent, department-wide standard for basic management techniques for all R&D activities. The magnitude of the resources that the Department spends on R&D, and the essential role of these activities in supporting departmental programs, warrant a department-wide standard for the management procedures appropriate to all such activities.

14.111 The Department's management systems for planning and controlling R&D activities were weak. Procedures for planning and setting priorities for these activities and for their review were either informal or inconsistently applied. In the Atmospheric Environment Service, the Atmospheric Research Directorate project leaders received inadequate financial control information from that Service's management information systems. The Department had not developed standard performance measures for monitoring R&D projects. Project milestones, task schedules and R&D objectives were not integrated.

14.112 Improvements are therefore needed in the Department's systems for planning and controlling R&D activities if it is to demonstrate due regard for economy and efficiency in these activities.

Observations and Recommendations

14.113 R&D priorities and objectives. Goals for R&D were seldom expressed in terms that were sufficiently concrete to provide adequate guidelines, either for assigning priorities to R&D activities for the purpose of determining resource requirements or for developing criteria for assessing the extent to which the R&D activities support departmental programs.

14.114 The Department had not provided three of the four R&D responsibility centres that we reviewed during the audit with formal criteria against which to assess the cost-effectiveness of their research in relation to program priorities. Only the Great Lakes Forest Research Centre had received these kinds of formal criteria. They had been provided through a priority-setting exercise carried out by the Ontario Region of the Environmental Management Service.

14.115 *The Department, in conjunction with each of the Environmental Services, should develop a formal policy and a plan that outline the priorities and objectives of the short-, medium- and long-term research and development required to support the objectives of the Department.*

14.116 Project plans. During our review of the Department's R&D management procedures and systems, we identified several initiatives that had been taken in developing and formally stating project plans. For example, in the Water Pollution Control Directorate, the Technology Development Branch's projects for developing the "best practicable technology" incorporated both management controls (for example, milestone events and costs, target dates for potential project outputs and project progress reporting schedules) and a scientific framework.

14.117 In general, however, the quality and standard of formal R&D project plans varied significantly within the Department. Management information required to assess and adequately control project activities often was not included in R&D project plans. For example, project plans did not always include time horizons for meeting goals and objectives. Thirteen of the 20 projects that we reviewed had been underway for at least three years. Twelve of these projects did not have a formal time frame set for meeting project objectives. All projects which were segregated into associated studies had established objectives for each study; however, a number of projects did not translate these objectives into task schedules with target times and milestone events.

14.118 *The Department should establish guidelines that indicate what information is to be included in all formal R&D project plans.*

14.119 **Management systems for reviewing, evaluating and supporting R&D activities.** The mission-oriented nature of R&D activities and the large quantity of resources consumed by them warrant formal management systems of a consistent quality to provide the information and direction required to adequately monitor and evaluate these research activities.

14.120 The Department's systems and procedures for reporting on and reviewing R&D activities did not allow it to determine the level of R&D resources it needed. For example, the Senior Management Committee of the Department has not received a formal analysis of the scientific expenditures data prepared for MOSST since 1976. In addition, the Department's Science Committee has not met formally since 1975. When this Committee was set up in 1973-74, one of the issues that it intended to address was the lack of a "departmental process to identify gaps in research".

14.121 The Atmospheric Environment Service was the only Service which had established a set of formal guidelines and procedures for identifying specific expenditures on R&D. The other two Environmental Services each used different and informal procedures for identifying their R&D costs and had not established formal guidelines for recording these expenditures.

14.122 The Department completes an annual questionnaire on scientific expenditures and personnel resources for the Ministry of State for Science and Technology. This questionnaire, completed by all government departments and agencies doing research, serves as the basis for the MOSST report on Federal Science Activities which is submitted to Parliament as an addendum to the Main Estimates. We were unable to reconcile the amounts reported to MOSST with the Department's accounting records because the Department did not have procedures or a cost accounting system to ensure that the information provided was accumulated and reported consistently and accurately.

14.123 *The Department should establish guidelines and implement formal procedures for annually reviewing the allocation of R&D resources to ensure that these resources provide appropriate support required by the priorities and objectives of the Environmental Services Program.*

14.124 *The Department should develop procedures for collecting, recording and reporting R&D information to provide senior management with a basis for monitoring and evaluating research activities.*

14.125 Management control systems. The Department had provided no formal guidelines or criteria for the application of project management techniques. Within the responsibility centres we reviewed, a wide variety of both formal and informal management techniques were in place; however, they varied among, and sometimes within, the Environmental Services. For example, the Northern Forest Research Centre was the only R&D responsibility centre we reviewed that used Performance Evaluation Review Technique (PERT) and Critical Path Method (CPM) as a management control system for the Centre. A more uniform approach to using project management techniques would assist managers in monitoring the progress of R&D activities.

14.126 *The Department should provide formal guidelines for the application of basic project management techniques to R&D projects.*

14.127 Departmental and project financial control. There is a need for flexibility in the management of R&D. However, there is also a need for consistent procedures for controlling and reporting on the progress of projects so that management can exercise discretion, as required, on an informed basis.

14.128 We observed that the procedures for monitoring and controlling projects were inconsistent within the Department. Formal reports on the status of R&D projects were not consistently integrated with the financial reporting cycles. The Wastewater Technology Centre prepared monthly project status reports on all projects. These reports were used to monitor R&D progress against the monthly project cost reports. Both the Forest Pest Management Institute and the Great Lakes Forest Research Centre, which did not have standard monthly or quarterly project status reports, included a summary of project progress in their annual program plans. Although they prepared these plans before the end of the fiscal year, project cost estimates appeared accurate and were based upon formal project cost reports which were provided each month.

14.129 The Atmospheric Research Directorate (ARD) did not have uniform project status reporting systems. Some of the R&D groups within ARD prepared quarterly project status reports, while others relied on the discretion of individual project leaders or managers regarding the timing and format of project status reports. The ARD did not have a standard formal procedure for monitoring the monthly cost in relation to the status of each R&D project.

14.130 *The Department should improve its procedures for controlling R&D projects by establishing guidelines covering the frequency with which progress status reports should be prepared and the management information they should contain. Status reports should be integrated with project cost reports.*

Electronic Data Processing

Introduction

14.131 As well as protecting the environment, another of the Department's important tasks is to collect and disseminate environmental information. To assist in this activity, the Department has developed many computerized systems which analyse, process and retain information for long periods of time and generate scientific output relevant to specific users. In addition to these scientific applications, the Department has developed a number of non-scientific computer applications which provide financial, personnel and other operational information for internal and external purposes.

14.132 The Department has approximately 70 computers and is one of the largest users of computers and service bureaux in the Government. Three of the 70 computers are "large-scale", costing over \$250,000 each, while the remainder are "minicomputers". The Computing and Applied Statistics Directorate (CASD) of the Planning and Finance Service indicated that, department-wide, there were 339 electronic data processing (EDP) person-years and approximately \$18 million in EDP costs for the year ended March 31, 1979.

14.133 Our examination of the EDP area covered the planning of, and control over, computerized information systems and the evaluation and procurement of computer equipment and data processing services. We also examined the role and responsibilities of the CASD and security procedures for EDP centres.

14.134 We selected three computerized systems for review. The first, the Personnel Information Reporting System (PIRS), provided management with information about departmental personnel. The other two systems are scientific data banks, namely, the Canadian Geographic Information System, also known as the Canada Land Data System, and the Climatological Data Archives, also referred to as the Climatology Data Bank.

14.135 We reviewed the Department's processes of evaluation and procurement in relation to the acquisition of computers. This included the examination of the procedures that the Department used in acquiring a new large-scale computer for the Canada Centre for Inland Waters, located in Burlington, Ontario. We also examined the acquisition of six (selected at random) out of 16 minicomputers that the Department acquired in 1977-78, and the procurement of data processing services by contract from service bureaux.

General Conclusions

14.136 Our review indicated that the Department did not have formal standards and detailed procedures, either for conducting feasibility and

cost-benefit studies on proposed EDP equipment and installations, or for periodically reviewing existing computerized systems.

14.137 The Department did not have a complete set of EDP policies, a long-term EDP strategy or plan, or an accurate inventory of its computers. Although the "requests for proposals" that we reviewed appeared to be satisfactory, procedures for preparing feasibility studies were lacking and the studies we reviewed were incomplete. In addition, although information was available on the utilization of large-scale computers, CASD was not receiving utilization statistics on the minicomputer installations.

14.138 Improvements are required in planning and controlling the development of information systems and in the periodic review of these systems. Improvements are also required to satisfy the Department that it is planning and acquiring its EDP resources with due regard for economy and that it has the information necessary to ensure the efficient use of its minicomputer resources.

Observations and Recommendations

14.139 Planning computerized information systems. The Department needs to improve its planning for developing and implementing computerized systems. The Department had neither documented standards nor detailed procedures for conducting feasibility and cost-benefit studies, contrary to the Treasury Board directive. CASD approved the EDP systems which were reported in the Annual EDP Plan submitted to the Treasury Board; however, it did not monitor or control the conduct of feasibility and cost-benefit studies to ensure that they were of an acceptable quality. Although certain of the feasibility studies that we reviewed contained adequate justification for the decision to computerize a process, they did not provide sufficient information to objectively assess the alternatives available.

14.140 Within the Atmospheric Environment Service, the responsibility for planning, designing and developing a system for climatological data rests with the Central Services Directorate. However, the Directorate has not adequately coordinated on-going development. As a result, separate organizational units within the Service made improvements or other modifications to those components of the system under their control, without the Directorate assessing the impact that the changes would have on the rest of the climatology system.

14.141 The Personnel Information Reporting System (PIRS) Task Force was created to consider alternatives to the existing system. Our review of PIRS indicated that the Task Force report, plus additional material developed and presented to the Department's management committee, did not meet generally accepted criteria for feasibility studies. The studies did not provide sufficient information to justify the costs of the processing methods adopted.

14.142 *As an integral part of planning, and in accordance with the Treasury Board directive, the Department should set standards for conducting feasibility studies and cost-benefit analyses of computer-based information systems. These standards should include procedures to ensure proper integration of modifications to existing systems.*

14.143 **Organization of data.** Our review of the Climatology Data Bank and the Canada Land Data System indicated that the current storage media, file organization and mode of processing met user requirements economically and efficiently.

14.144 Our review of PIRS gave rise to a concern about the lack of documentation supporting the decision to include on-line processing capabilities in the system, even though the original report indicated that some information could be up-dated less expensively by using overnight batch processing. Although the Department conducted a number of reviews in order to find ways of reducing operating costs and eventually converted certain on-line capabilities to batch processing, in our opinion, the Department did not demonstrate due regard for economy when it incorporated on-line capabilities into PIRS while it was being developed.

14.145 Our review also indicated that the Department did not have documented standards governing the completeness, accuracy, authorization and security of the data in its various systems. We were informed, however, that security had been considered and that adequate procedures had been carried out to ensure it even though no written evidence to this effect was available.

14.146 *Feasibility studies should contain sufficient information to permit evaluation of access, storage and file organization techniques recommended. In addition, the Department should develop procedures to ensure the completeness, accuracy, authorization and security of the data when new systems are designed or existing systems modified.*

14.147 **Controlling computerized information systems.** Our review indicated that the Department did not have policies and procedures on controls to be applied during the development and maintenance of computer systems. These controls would include the preparation of progress reports, the assessment of the information needs of users and the accumulation of development cost information separate from operating costs. For existing computer-based information systems, mechanisms should be in place to critically assess whether continued use is justified.

14.148 Development costs of the Canada Land Data System, including the cost of loading the computer map files but excluding the cost of establishing the Land Inventory, are estimated to have been \$10 million over the last 15 years.

The Department has not maintained records which would specifically identify these costs and has been unable to accurately determine them because of the difficulty in accumulating and assessing the necessary information. However, for the past two years, the Department has applied procedures for identifying and accumulating costs for projects subject to cost recovery. Effective April 1, 1979, the Canada Land Data System Division expanded these procedures to cover all projects undertaken, either for cost recovery or internal purposes. We also found that, although the Canada Land Data System had been reviewed by the Department and the Treasury Board, the reviews did not examine whether the System could meet the needs of its users.

14.149 Our review of the Personnel Information Reporting System (PIRS) indicated that, while the System was being developed in 1977 and after it had been in operation for a short period, it was subjected to numerous reviews. However, it was not until the final review, conducted in 1978 in conjunction with a budget review of all activities, that it was decided to replace PIRS with a less complex system. The new system was adapted from another department's modification of the Official Languages Information System at an annual saving of approximately \$192,000.

14.150 Management recognized and acted upon the cost saving available through using another system. However, the Department's existing standards, policies and procedures do not require such comprehensive reviews during the development and operation of departmental computer systems. Without these reviews, the Department could develop and continue using ineffective or uneconomical systems.

14.151 *The Department should assess alternative processing methods and the utility of information to users when appraising or reviewing its operating systems. The Department should also maintain accurate cost information to assist in the timely and effective control of its systems.*

14.152 Co-ordination of EDP activities. Within the Department, certain responsibilities for EDP have been assigned to CASD. We found that some aspects of the management and co-ordination of EDP activities were lacking. For example, the Department's documented EDP policies were not complete. To the extent that these policies were incomplete, the Department had not complied with directives issued by the Treasury Board in its Administrative Policy Manual.

14.153 *The Department should clarify the responsibilities of the Computing and Applied Statistics Directorate for management and co-ordination of EDP activities and ensure that departmental EDP policies are completed in accordance with Treasury Board directives.*

14.154 Planning for EDP acquisition. The Department had a short-term EDP plan. However, the Department did not meet the broader requirements, as outlined in the Treasury Board Administrative Policy Manual under Planning, which states that the Department should have "a long-range strategy on the nature and scope of EDP support to programs in accordance with departmental program objectives and priorities".

14.155 *The Department should develop a long-term EDP plan which will meet the needs of management and fulfil Treasury Board requirements.*

14.156 EDP project control and reporting procedures. CASD has developed procedures for monitoring the procurement of EDP systems; however, there were no department-wide EDP project control and reporting procedures to assure management that project costs were within budget and implementation was on schedule.

14.157 *The Department should develop and implement department-wide EDP project control and reporting procedures to ensure that projects are implemented on time and within budget.*

14.158 Inventory of computers. At the time of our audit, the inventory of computers, maintained by CASD, was inaccurate. Some computers were not shown on the inventory; others were shown more than once. An accurate inventory is needed to assist the Department in its acquisition, utilization and control of computers.

14.159 *The Department should ensure that an accurate inventory of computers is maintained.*

14.160 EDP utilization statistics. Each departmental group with an EDP installation was responsible for compiling utilization statistics for its own computer; however, the Department was not consolidating and reviewing these statistics for minicomputers. Accumulating and reviewing computer utilization statistics would let the Department know whether some minicomputers have available time which might be used by another group within the Department. By increasing the utilization of its minicomputers, the Department might be able to avoid acquiring additional ones to satisfy the computing needs of various groups. In addition, procedures did not exist for identifying those computer applications which were coming to an end, thereby freeing up equipment for use on other projects or for disposal as surplus.

14.161 *The Department should periodically consolidate and review utilization statistics on its minicomputers to improve planning and control of their use.*

14.162 Security of computers. Some of the minicomputers and associated computer files were located in open office areas and could be damaged. In addition, the Department had no "disaster recovery manuals" for its major computer installations. These manuals would outline plans of the Department to get an installation into operation again if a disaster were to render it temporarily inoperable or to provide a substitute for it if it were destroyed.

14.163 *The Department should establish procedures to ensure the security of minicomputers and associated computer files. It should also develop and document plans to ensure recovery or replacement for its EDP installations in the event of mishaps or destruction.*

Management of Real Properties

Introduction

14.164 Real property includes land and specialized buildings owned and maintained by the Department and leased accommodation provided primarily by the Department of Public Works. The original cost of the real property holdings recorded under the Department's name in the Central Real Property Inventory issued by the Department of Public Works in January 1979 was \$78 million, of which approximately \$16 million represented land. Although the replacement cost of specialized buildings had not been formally appraised, the Department estimated that this would be about \$230 million. There was no similar estimate of the replacement cost of land. The rent payable to the Department of Public Works for leased accommodation, if such charges were made, would be approximately \$12.6 million per annum. The Department of the Environment has identified capital needs costing about \$72 million for the period 1979 to 1987.

14.165 Our examination was designed to determine whether the Department's management of real properties demonstrated due regard for economy and efficiency. Included in our examination was a review of the organization, policies and procedures, planning and reporting for real property activities. We conducted our review at departmental headquarters and included detailed examinations of six projects.

General Conclusions

14.166 A clear overview of all the Department's current or proposed real property activities could only be obtained with considerable difficulty. The Department has imprecisely defined responsibility for various phases of real property management. No specific guidelines existed on how the Facilities Planning Branch, which is the principal unit entrusted with real property activities, was to perform its role; nor were its functional relationships with other sections of the Department defined.

14.167 Some programs were undertaken before reasonable estimates of capital and operating costs had been established. Departmental policies and procedures for managing its real property were incomplete and, in many cases, informal. There were no mechanisms for ensuring that the Department up-dated its procedures promptly to reflect changing conditions. In certain instances, the information provided to management was not adequate.

14.168 The Department needs to improve its management practices if it is to demonstrate due regard for economy and efficiency in its real property activities.

14.169 It should be noted that the Department has taken steps to improve the management of its larger facilities. In 1976-77, the Facilities Planning Branch carried out the first cycle of its biennial operational reviews. The Branch concluded that the Department was managing its facilities at least as well as other government departments. The Department has successfully introduced an energy conservation program which allowed it to reduce its energy consumption to a level below that stipulated by the Treasury Board.

Observations and Recommendations

14.170 Parks Canada Program. We had initiated preliminary audit work while the Parks Canada Program was part of the Department of Indian Affairs and Northern Development. We terminated our field work relating to the Program when it was transferred to the Department of the Environment. At that time, we had covered the Western Regional Office and the Banff, Jasper and Waterton Lakes National Parks. Our preliminary examination revealed two fundamental weaknesses in national parks management systems. First, master plans for individual park development and operations were often incomplete and most were not approved by senior management in the Parks Canada Program. Therefore, they did not provide a sound base for assessing individual projects or expenditure patterns. Second, needs and feasibility analyses prepared to obtain approval for capital projects and for operating budgets generally were incomplete or were produced after projects had been included in the Program Forecast.

14.171 Internal studies that we examined indicated that these two weaknesses also applied, in varying degrees, to other regions and to other activity areas, such as historic sites. These weaknesses were often identified as the underlying cause for various problems in managing assets. These problems have been discussed with Parks Canada and the Department.

14.172 The weaknesses noted during our preliminary examination of Parks Canada appear to be similar to those noted in this study. The Department should consider the applicability to the Parks Canada Program of the recommendations included in the following sections of this Chapter.

14.173 Real property organization. The organizational structure for managing real property consists primarily of two levels, the Facilities Planning Branch at Head Office and the Building and Plant Services at each of the seven major facilities owned by the Department.

14.174 Neither the organizational structure nor the allocation of roles and responsibilities for real property management had been fully determined and described, subjected to review, or approved by departmental senior management. Senior management's own responsibility for reviewing the Department's real property plans was unclear.

14.175 The allocation of responsibility and accountability for some projects, for example, the Prairie Wildlife Research and Interpretation Centre, was imprecisely defined. Partly as a result, the Centre, originally intended to be completed in 1977, was not ready for public use until June 1979.

14.176 *The Department should define, approve and fully document the roles, responsibilities and relationships of all departmental, service and major facility personnel charged with the management of real property.*

14.177 Policy and procedures. The Department's policy and procedures for the management of real property are contained in its Facilities Planning Systems and Procedures Manual, first issued in 1973. However, many significant sections had not been approved and issued. It was not clear whether those parts of the manual that had been issued contained mandatory or discretionary procedures. Also, the Manual did not incorporate all appropriate current Treasury Board requirements.

14.178 *The Department should complete and keep up to date its Facilities Planning Systems and Procedures Manual. The Manual should indicate clearly which procedures are mandatory and which are discretionary.*

14.179 Long-term planning. Identification of all real property needs has been the function of the individual services and directorates. Departmental Headquarters has limited itself to providing general policy statements and budgetary guidelines.

14.180 The Department had no mechanism for conducting an integrated review of all its real property needs. As each Service identified its property requirements, they were treated separately, depending on whether they represented major or minor capital projects, or requirements for accommodation to be supplied by the Department of Public Works. As a result, no overview of real property plans was readily available for senior management or for those responsible for co-ordinating planning and resource allocation.

14.181 Planning for programs was not always adequate. For example, in two programs that we reviewed, the Habitat Land and the Prairie Wildlife Research and Interpretation Programs, the Department made significant expenditures on real property before comprehensive program plans and cost estimates had been prepared. Until the requirement was established by the Treasury Board in 1977, the Department did not review its long-term office space needs.

14.182 In 1978, a Facilities Planning Branch estimate indicated that the Department occupied space in excess of the Treasury Board Space Control Standard. The imputed annual cost of this excess space, if this standard was to be applied rigorously, would be about \$2.6 million. The Branch has adopted the approach of bringing space utilization into line with the Control Standard by waiting until each accommodation lease comes up for renegotiation, either as a renewal or an amendment.

14.183 *The Department should establish procedures to ensure better co-ordination in the long-term planning of its real property requirements.*

14.184 **Life-cycle costing.** The Department includes in its Major Construction Program construction projects whose costs are estimated to be in excess of \$250,000. The information gathered to support projects included in this Program varied considerably. Estimates of project cost were not based on full life-cycle costing. In our 1978 annual Report (paragraph 3.21), life-cycle costs were defined as initial capital costs and the present value of operating and maintenance costs over the life of the asset. This omission is significant, as it could materially understate total real property costs. As a result, subsequent funds for operating and maintaining properties might not be adequate to meet program delivery objectives. This was true for both the Habitat Land Program and the Prairie Wildlife Research and Interpretation Program.

14.185 *The Department should review and amend its project planning procedures to ensure that estimates for acquisitions reflect full life-cycle costs.*

14.186 **Inventory of real property holdings.** The Department of Public Works (DPW) maintains a Central Real Property Inventory for all federally-owned and leased property. The Treasury Board requires each federal authority to report its acquisitions, disposals and amendments of real property holdings to DPW.

14.187 The Facilities Planning Branch is responsible for this function in the Department of the Environment; however, the Branch has not had the authority to ensure that the services and directorates report complete, accurate and timely information on their real property changes. The Branch had not issued formal procedures for reporting this information. Our review of specific projects revealed that information on real property acquisitions was not always submitted promptly to the Facilities Planning Branch (and consequently to DPW).

14.188 *The Department should develop and implement procedures for ensuring that the consolidated departmental inventory of real property is complete, accurate and up-to-date and that real property information is communicated promptly to the Department of Public Works.*

14.189 **Project status reporting.** The Facilities Planning Branch prepares a monthly Project Status Report listing all projects in which it has been involved. We found that the report did not contain information on all the Department's real property projects, nor did it include estimated costs for the completion of projects. Furthermore, the comments on each project were not based on a comparison of actual progress against planned progress schedules.

14.190 *The Department should improve its project status reporting by ensuring that it reflects all real property activities within the Department and that status reports contain information on both planned and actual progress and costs.*

14.191 **Monitoring of operating costs.** Building and plant services costs for major facilities were not reported in a usable format either to the Services' headquarters concerned or to the Facilities Planning Branch. Such costs were neither budgeted nor accounted for in a uniform manner throughout the Department. Cost accounting classifications were too broad to allow for detailed analysis. Building and plant services costs were not separated from other operating and maintenance costs.

14.192 *The Department should improve the cost accounting and budgeting processes used to control real property operating and maintenance expenditures.*

14.193 **Review of completed projects.** The Department had not developed any policy or procedural directives for "post-completion reviews" of real property projects. Such reviews are of particular importance for forestry research institutes, weather stations and wildlife interpretation centres because similar projects are being contemplated in the future.

14.194 *The Department should require post-completion reviews of all significant real property projects.*

Payroll Costs Management

Introduction

14.195 In addition to being part of the comprehensive audit of the Department, this audit was also part of the government-wide study of payroll costs

management conducted by the Office in 1978-79 and reported in Chapter 9 of this Report.

14.196 The three payroll costs management elements included in the study were manpower planning, training and development, and human resource information systems. During the audit, we examined reports, files, plans, budgets and other documentation relevant to the three topics under study, and we assessed systems and procedures against specific audit criteria developed for each area.

14.197 In auditing manpower planning, we examined the Department's systems and procedures for determining its manpower needs through its operational plans, for maintaining inventories of human resources, for determining net requirements, and for developing action plans to deal with manpower shortages or surpluses.

14.198 Our audit of training and development provided a review of the systems and procedures that the Department used for identifying training and development needs; planning and budgeting for programs to meet these needs; assessing benefits and costs of alternatives; delivering training and development programs; and assessing their results.

14.199 We also reviewed human resource information systems to see whether managers were receiving all the personnel information they needed and whether the information was timely and accurate. (The human resource information systems portion of our study is discussed in the EDP section of this Chapter dealing with PIRS).

General Conclusions

14.200 We found a variety of payroll costs management practices throughout the Department. The magnitude of payroll costs in the Department, the critical role that human resources play in achieving Services' objectives and the semi-autonomous nature of the Services, require the uniform application of human resource systems across the Department. In our opinion, the Personnel and Organization Directorate was not providing the necessary direction and coordination to assure this uniformity.

14.201 The Department did not have a comprehensive manpower planning system which complemented and was related to its operational and financial planning. Without such a system, it could not have assurance that it had the right number and quality of people when and where they were needed. It also could not be certain that it was getting value for money from its expenditures on human resources.

14.202 The Department's systems for budgeting, planning, co-ordinating and evaluating training and development activities were incomplete. Therefore, the Department could not determine whether it was delivering its training and development programs economically and efficiently.

Observations and Recommendations

14.203 Manpower planning. Although we found examples of good manpower planning, we also found significant weaknesses. Manpower planning was not related to financial, program and operational planning. The Department was not able to comply with the Treasury Board's recommended policy, which states that, for 1979-80, departments should "determine, at least on an annual basis, the personnel management implications of their over-all objectives and forecast requirements". At the conclusion of our audit, the Department was finalizing a departmental policy on personnel management planning. This is a worthwhile first step toward meeting the Treasury Board requirement.

14.204 The need for relating manpower planning to operational requirements is supported by departmental estimates that:

- by 1987, 74 per cent of the research managers and 41 per cent of the research scientists in the Canadian Forestry Service will be eligible for retirement; and
- within four years, 35 of the 40 senior meteorologists in the Atmospheric Environment Service will also be eligible for retirement.

14.205 The Atmospheric Environment Service recognized this difficulty and developed a detailed development and succession plan. The Environmental Management Service was in the early stages of preparing a similar plan. However, the Environmental Protection Service, which was not yet as vulnerable to changes resulting from staff retirements, did not have any succession plan.

14.206 The principal method of measuring the performance of an individual is through a performance appraisal made at least annually. The Department conducted these appraisals for the 300 managers on performance pay, although, according to departmental estimates, until recently only 20 to 50 per cent of other employees received annual performance appraisals.

14.207 Steps have been taken recently to measure group productivity which should eventually assist in determining manpower requirements. For example, the Environmental Management Service established work standards in two areas and is currently developing them for a third.

14.208 *Manpower planning should be related to financial and operational planning. As the Department establishes its program priorities and prepares work plans, it should determine the human resource implications and should develop its personnel management plans accordingly.*

14.209 *The Department should ensure that all Services develop a detailed succession plan similar to that developed by the Atmospheric Environment Service.*

14.210 *The Department should conduct periodic formal assessments of the performance of employees.*

14.211 *The Department should continue its efforts to establish productivity measures where applicable. These measures should be used to assess individual and group efficiency and to determine overall staffing requirements.*

14.212 **Training and development.** The Department is a major employer of scientific, professional and technical employees, who account for almost two-thirds of its workforce. Although training and development expenditures are substantial, the Department had not accumulated information on them and, consequently, could not determine their actual cost. In addition, the Department did not have adequate procedures for controlling them. Many costs were overlooked or understated in preparing the Annual Training and Education Review for Treasury Board. In 1977-78, the Department reported training costs (excluding trainee salaries) of about \$500,000 (including the Fisheries and Marine Program). The Treasury Board Secretariat estimated total departmental costs, including trainee salaries, at about \$2.9 million. Our estimate, however, of total training costs for 1978-79, excluding the Fisheries and Marine Program, was about \$7.5 million. This difference resulted primarily from the incomplete disclosure or omission of trainers' and trainees' salaries and understatement of other trainee costs such as travel and accommodation. Since there was no significant change in the volume of training from one year to the next, the Department clearly understated these costs in 1977-78.

14.213 The primary method of identifying employees' training and development needs was the performance appraisal process. As mentioned earlier, the Department estimated that, until 1978-79, only 20 to 50 per cent of its employees participated in the appraisal process. Therefore, the training and development needs of at least 50 per cent of the departmental employees were not determined by this means. Although the Department offered a two-day instruction program in 1978-79 on the identification of training and development needs, few supervisors attended it.

14.214 Operating managers worked with training personnel to determine group training needs and to schedule courses. Nevertheless, poor forecasting of

training requirements sometimes occurred, with the result that training staff and facilities were not fully used. For example, in the meteorological technician courses conducted during 1977-78, only 60 per cent of the number of student training days originally planned were completed.

14.215 *The Department should establish procedures to identify and record all training and development expenditures.*

14.216 *The Department should ensure that the training and development needs of all its employees are identified and that all supervisory personnel receive instruction in the identification of such needs.*

14.217 *The Department should improve its methods of forecasting group training needs to allow for more efficient use of training staff and facilities.*

Summary of Recommendations and Department's Comments

Recommendations

Department's Comments

Financial Operations

- | | | |
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| 14.28 | The Department should document procedures for developing a long-term plan and for integrating financial and operational data in both its long- and short-term plans and reports. | Will be done as part of the IMPAC action plan. |
| 14.31 | In consultation with the Treasury Board, the Department should review the form of the Estimates, with a view to improving the disclosure of information to Parliament. | The Department will cooperate with the Treasury Board in whatever initiatives are taken on this matter. |
| 14.33 | The Department should complete and up-date its financial policies and procedures and document them in the Financial Directives Manual. | The manual is now virtually complete. Revisions to deal with new requirements are also under way. |
| 14.37 | The Department should improve its internal control system by ensuring compliance with the commitment, spending and payment requirements of the Financial Administration Act, by ensuring that an independent pre-audit is always carried out and by maintaining appropriate capital asset records. | Agreed. |
| 14.46 | The Department should ensure that the Schedules of Charges are prepared and approved in accordance with the Department's Revenue and Cost Recovery Policy. | The Revenue and Cost Recovery Policy is in the last stages of implementation. |

Recommendations

Department's Comments

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| 14.47 | The Department should strengthen internal controls over its cost recovery charges and expenditures and should improve reporting on revenue and cost recovery. | This will be done, to the extent required and practicable. |
| 14.48 | The Department should explore further areas for revenue and cost recovery and should follow-up on those areas already identified. | This has been generally completed. Continued attention will be paid to identification of cost recovery possibilities. |

Internal Audit Function

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| 14.59 | The Department should expand the mandate of the internal audit function to ensure coverage, on a regular basis, of all financial and management processes and systems. | Agreed. This coverage is included under Scope of Audit Activity in the new Policy Directive issued on July 12, 1979. |
| 14.62 | The Internal Financial Audit Branch should improve its long- and short-term audit planning by providing more information on such matters as audit scope and objectives, priorities and significant characteristics of the entities to be audited. | Agreed. This will be done. |
| 14.64 | The Internal Financial Audit Branch should exercise greater control over the conduct of audits. | This will be done for audits in which Departmental auditors participate. This is not always possible for audits conducted by external or agent auditors. In these instances working papers will be reviewed to assess performance. |
| 14.67 | The Internal Financial Audit Branch should submit individual audit reports to the Internal Audit Committee and should issue its annual reports promptly. | Agreed. Summaries of individual audit reports are being provided to the Audit Committee. The annual Report will be submitted promptly in future. The 1978-79 report is dated September 1979. |

Recommendations

Department's Comments

14.69 The Internal Audit Committee should give active guidance and support to the internal audit function through greater involvement in its planning, staffing and reporting activities and in expanding its mandate.

Agreed. The Audit Committee will meet more frequently in future.

An expansion of the Audit Committee's role beyond that included in the Policy Statement issued on July 12, 1979 will receive careful consideration.

Regulatory Process for Environmental Protection

14.79 The Department should establish and implement evaluation plans for its regulatory programs.

Agreed. These plans are in the process of being developed and implemented.

14.86 The Department should establish systems and procedures, where they do not now exist, for identifying and ranking pollution problems as a basis for setting priorities for developing regulations in its pollution control programs.

Agree that any deficiencies in priority setting systems and procedures will be corrected.

14.89 The Department should ensure that project planning and control systems are improved for the water pollution control program. It should also ensure that schedules for developing pollution control regulations and guidelines in the other programs are kept current.

Agree that the systems should exist and be kept current. A schedule of events for the development of each regulation/guideline is maintained.

14.97 The Department should ensure that agreements with the provinces include detailed working arrangements covering provincial responsibilities for implementing and enforcing pollution control regulations and guidelines.

This is a desirable goal but its attainment is subject to the cooperation of the provinces.

Recommendations

Department's Comments

14.98 The Department should follow established procedures for monitoring the extent to which pollution control regulations and guidelines are being followed, and should take the necessary steps to enforce regulations, as required.

Agree that monitoring implementation is a desirable function to the extent that resources permit. Enforcement decisions must be tempered with a full understanding of the social and economic effects in each case.

14.103 The Department should establish systems and procedures to provide comprehensive and accurate reports on the effectiveness of its pollution control programs.

This will be included in the evaluation portion of the action plan which will be developed following the IMPAC study of the Comptroller General.

Management of Research and Development

14.115 The Department, in conjunction with each of the Environmental Services, should develop a formal policy and a plan that outline the priorities and objectives of the short-, medium- and long-term research and development required to support the objectives of the Department.

Recommendations 14.115 to 14.130 will be covered in the action plan to be developed following the IMPAC study.

14.118 The Department should establish guidelines that indicate what information is to be included in all formal R&D project plans.

See comment above.

14.123 The Department should establish guidelines and implement formal procedures for annually reviewing the allocation of R&D resources to ensure that these resources provide appropriate support required by the priorities and objectives of the Environmental Services Program.

See comment above.

Recommendations

Department's Comments

14.124 The Department should develop procedures for collecting, recording and reporting R&D information to provide senior management with a basis for monitoring and evaluating research activities.

Because of the diverse nature of research in the Department, the type of information and the levels at which it should be combined will vary considerably.

14.126 The Department should provide formal guidelines for the application of basic project management techniques to R&D projects.

See comment opposite 14.115.

14.130 The Department should improve its procedures for controlling R&D projects by establishing guidelines covering the frequency with which progress status reports should be prepared and the management information they should contain. Status reports should be integrated with project cost reports.

See comment opposite 14.115.

Electronic Data Processing

14.142 As an integral part of planning, and in accordance with the Treasury Board directive, the Department should set standards for conducting feasibility studies and cost-benefit analyses of computer-based information systems. These standards should include procedures to ensure proper integration of modifications to existing systems.

These standards will be set in accordance with Departmental EDP policy currently under development.

Recommendations

Department's Comments

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| 14.146 Feasibility studies should contain sufficient information to permit evaluation of access, storage and file organization techniques recommended. In addition, the Department should develop procedures to ensure the completeness, accuracy, authorization and security of the data when new systems are designed or existing systems modified. | Directives and guidelines pertaining to EDP project planning and data management are under development in the new policy. |
| 14.151 The Department should assess alternative processing methods and the utility of information to users when appraising or reviewing its operating systems. The Department should also maintain accurate cost information to assist in the timely and effective control of its systems. | This will be ensured through the ongoing EDP review and evaluation program. |
| 14.153 The Department should clarify the responsibilities of the Computing and Applied Statistics Directorate for management and co-ordination of EDP activities and ensure that departmental EDP policies are completed in accordance with Treasury Board directives. | The role and responsibilities of CASD are being clarified with the assistance of the Departmental EDP Policy Review Committee. |
| 14.155 The Department should develop a long-term EDP plan which will meet the needs of management and fulfil Treasury Board requirements. | Agreed. The first plan is scheduled for completion this fiscal year. |
| 14.157 The Department should develop and implement department-wide EDP project control and reporting procedures to ensure that projects are implemented on time and within budget. | This recommendation is being considered by the Departmental EDP Policy Review Committee. |

Recommendations

Department's Comments

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| 14.159 The Department should ensure that an accurate inventory of computers is maintained. | Agreed. Steps are being taken to increase the accuracy of the inventory. |
| 14.161 The Department should periodically consolidate and review utilization statistics on its minicomputers to improve planning and control of their use. | This is now being done on an annual basis. |
| 14.163 The Department should establish procedures to ensure the security of minicomputers and associated computer files. It should also develop and document plans to ensure recovery or replacement for its EDP installations in the event of mishaps or destruction. | EDP security threat analyses are currently being completed for all EDP organizations. Security procedures will be developed as required. |

Management of Real Properties

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| 14.176 The Department should define, approve and fully document the roles, responsibilities and relationships of all departmental, service and major facility personnel charged with the management of real property. | Now being done. |
| 14.178 The Department should complete and keep up to date its Facilities Planning Systems and Procedures Manual. The Manual should indicate clearly which procedures are mandatory and which are discretionary. | Agreed. Action under way. |
| 14.183 The Department should establish procedures to ensure better co-ordination in the long-term planning of its real property requirements. | Procedures have now been developed. |

<i>Recommendations</i>	<i>Department's Comments</i>
14.185 The Department should review and amend its project planning procedures to ensure that estimates for acquisitions reflect full life-cycle costs.	Included in above procedures.
14.188 The Department should develop and implement procedures for ensuring that the consolidated departmental inventory of real property is complete, accurate and up-to-date and that real property information is communicated promptly to the Department of Public Works.	Agreed. Necessary directives will be issued.
14.190 The Department should improve its project status reporting by ensuring that it reflects all real property activities within the Department and that status reports contain information on both planned and actual progress and costs.	Agreed. Reporting will be improved.
14.192 The Department should improve the cost accounting and budgeting processes used to control real property operating and maintenance expenditures.	Under review for systems improvement.
14.194 The Department should require post-completion reviews of all significant real property projects.	Now standard operating procedure.

Recommendations

Department's Comments

Payroll Costs Management

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| 14.208 Manpower planning should be related to financial and operational planning. As the Department establishes its program priorities and prepares work plans, it should determine the human resource implications and should develop its personnel management plans accordingly. | Agreed. Such a policy is in place and being implemented. |
| 14.209 The Department should ensure that all Services develop a detailed succession plan similar to that developed by the Atmospheric Environment Service. | Other Services are developing approaches appropriate to their needs, using AES processes where helpful. |
| 14.210 The Department should conduct periodic formal assessments of the performance of employees. | Agreed. This is now departmental policy. |
| 14.211 The Department should continue its efforts to establish productivity measures where applicable. These measures should be used to assess individual and group efficiency and to determine overall staffing requirements. | Agreed. This is now departmental policy. |
| 14.215 The Department should establish procedures to identify and record all training and development expenditures. | The value of this recommendation is recognized and it will be implemented. |
| 14.216 The Department should ensure that the training and development needs of all its employees are identified and that all supervisory personnel receive instruction in the identification of such needs. | Agreed; being done. |

Recommendations

Department's Comments

14.217 The Department should improve its methods of forecasting group training needs to allow for more efficient use of training staff and facilities.

Possibilities for improvement of forecasting will be explored.

Deputy Minister's Comments

Reproduced on the following pages is the complete text of a letter dated November 1, 1979, from the Deputy Minister of the Department of the Environment in response to our request for his comments on the recommendations included in this Chapter.



Deputy Minister
Environment Canada

Sous-ministre
Environnement Canada

Ottawa, Ontario
K1A 0H3

November 1, 1979.

Mr. James J. Macdonell
Auditor General
240 Sparks Street
Ottawa, Ontario
K1A 0G6

Dear Mr. Macdonell:

I am attaching specific comments on the various recommendations in your report on the comprehensive audit carried out in the Department of the Environment. I would also like to add a number of more general comments.

My first point is that we accept your recommendations in a positive spirit and shall proceed with their implementation accordingly. Many of the recommendations have already been implemented in total or in part since March 31, 1979, which was the terminal date of the period studied. The other recommendations will be carried out as soon as possible. In the near future, an action plan will be developed in collaboration with the Comptroller General, based on his recent study on "Improvement in Management Practices and Controls" (IMPAC). This study covered many of the areas examined by your comprehensive audit, particularly operational planning, operational information systems, performance measurement, program evaluation and internal audit. Care will be taken to develop an integrated and coordinated plan which takes full account of your recommendations as well as those of the Comptroller General.

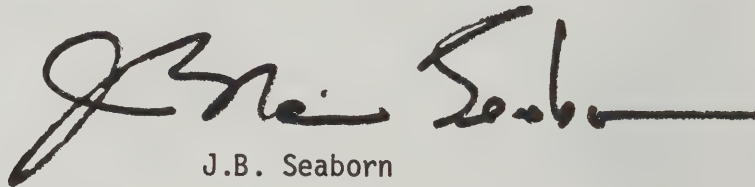
Some of the recommendations can be carried out rapidly, whereas others require a longer time frame. It will be necessary to ensure that the action plan includes a realistic time frame which takes into account the complexity of the work required, the resources available to carry it out, and the capacity of the operational units to implement a multitude of new systems.

... 2 ...

Since the functions of the Department are extremely varied and geographically dispersed, it will be necessary for certain recommendations to be carried out in two distinct phases - a first phase in which basic departmental guidelines are developed and promulgated, followed by a second phase in which the basic approach is adapted to the requirements of individual programs and specific regional situations.

In some subject areas, there is a requirement to determine the optimum level at which information should be consolidated. For example, the R & D carried out in this Department is very closely related to the various operational programs. Although an overview of R & D for the whole Department is important and necessary, criteria on which R & D decisions are taken have to be specific to each operational program. Therefore, in the implementation of your recommendations, it will be necessary to identify the optimum levels at which plans and reports should be consolidated.

Yours sincerely,

A handwritten signature in dark ink, appearing to read 'J.B. Seaborn', with a long horizontal flourish extending to the right.

J.B. Seaborn

Attch.

DEPARTMENT OF NATIONAL REVENUE - CUSTOMS AND EXCISE

DEPARTMENT OF NATIONAL REVENUE - CUSTOMS AND EXCISE

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DEPARTMENT OF NATIONAL REVENUE - CUSTOMS AND EXCISE**SUMMARY OF FINDINGS, OBSERVATIONS AND RECOMMENDATIONS****Introduction**

15.1 We are conducting our audit work throughout the Department over a three-year period. In our 1978 Report (Chapter 18), we reported on the results of the audit work carried out in the first year of the three-year cycle. That Chapter dealt almost exclusively with the administration of customs import duties and taxes provided for in the legislation related to these functions, as well as with the operations associated with controlling the international movement of people and goods as provided for in a number of other Acts.

15.2 This Chapter reports on the results of our work done during the second year of the three-year cycle. It deals primarily with the Department's activities for administering those Acts that pertain to excise duties and taxes. Thus, both this and last year's Reports are concerned mainly with the Department's principal revenue-associated operations.

15.3 We provided the Department with a detailed management report that contained a thorough discussion of the findings, observations and recommendations arising from our audit of excise activities. This Chapter summarizes that material.

15.4 We would like to acknowledge the Department's interest and co-operation during our audit, and particularly its assistance when we were preparing for this Office's Centennial Conference. The executive and staff viewed our audit as an opportunity for them to further identify required improvements and as a guide for their implementation. Managers at all levels saw the audit as a positive exercise and this attitude should contribute greatly to improving the Department's control systems and practices.

Overview of Excise Operations

15.5 The Department of National Revenue has two components: Taxation, and Customs and Excise. A Deputy Minister heads each unit, and each operates administratively as an independent department.

15.6 The taxes administered by both the Customs and Excise Branches are primarily commodity oriented, i.e., these taxes and duties are imposed on the importation and the sale of goods. A distinction exists, however, between the types of duties imposed by customs legislation and those imposed by excise legislation. Customs duties are primarily protectionist in nature and are designed to protect Canadian industry by imposing tariff barriers where appropriate. However, the duties and taxes collected by the Excise Branch are primarily oriented towards generating general government revenue. The organization structure and activities of each Branch reflect the distinction between these two forms of commodity taxation.

15.7 The Excise Tax Act, *R.S.C. 1970, c. E-13*, with specified exemptions, levies a sales tax on the production, sale or consumption of certain goods manufactured or produced in Canada or imported into Canada. The Act also imposes an excise tax on specific goods such as jewelry, air conditioning equipment and gasoline. The Excise Branch also administers another Act, the Excise Act, *R.S.C. 1970, c. E-12* which imposes excise duties on domestically manufactured tobacco products, spirits and beer.

15.8 The Branch's activities encourage and facilitate compliance by providing information and services that help taxpayers to understand the tax laws and regulations. The Branch must also detect errors made inadvertently by taxpayers as well as instances of fraud, evasion and abuse, and it must impose penalties. For 1979-80, the Excise Branch was allocated 1,555 person-years and \$41.8 million for operating costs, excluding its portion of the Department's general administration costs. As a result of its activities, the Branch collected about \$6 billion last year.

15.9 The Excise Branch's activities are organized under an Assistant Deputy Minister into three main organizational sub-divisions:

- Excise Programs - This group develops policies, programs and systems to provide for efficient and uniform Excise Branch operations. It provides direction in the areas of taxpayer audit procedures, collections and refunds, as well as in operational support areas.
- Field Operations - This group conducts the operations necessary for enforcing and encouraging voluntary compliance under the various excise laws administered by the Branch. Within the framework of departmental policies, it operates the systems and procedures relating to audit, collection and refunds principally designed by Excise Programs. The Branch maintains 11 regional offices which are supplemented by a number of district offices within each region.
- Excise Tax Administration - This group provides services designed to ensure that excise laws are interpreted and applied

uniformly across Canada. It is organized into three principal activities: providing tax policy advice and analysing excise legislation; interpreting legislation and monitoring its application throughout the Branch; and preparing and disseminating information to taxpayers necessary to ensure their proper understanding of excise laws, regulations and procedures.

15.10 General administrative support is provided to both the Excise and Customs Branches by a group of functions consisting of Finance and Administration, Personnel Administration, Legal Services, Planning and Consulting Services, Public Relations and Information Services, and Internal Audit. Their staffs are located primarily in Ottawa.

Scope of Audit

15.11 Our audit focused on the procedures and practices used by the Excise Branch to control the activities relating to tax administration, enforcement and the collection of and accounting for revenue.

15.12 The audit team considered those factors that most influence the Branch's exposure to error, fraud or abuse. As a result, our examination stressed enforcement activities, including the principal components of:

- taxpayer identification;
- audit of taxpayers;
- refund activities; and
- collection activities.

15.13 Under that part of the Auditor General's mandate relating to economy, efficiency and effectiveness, we examined the objectives of the Excise Program, the potential for establishing systems to generate performance information and whether or not the Excise Branch had implemented adequate procedures for measuring performance where it was appropriate and reasonable to do so. We also assessed the extent to which the Branch has provided Parliament with relevant and accurate performance information.

15.14 Our audit included a review of the Department's internal audit function to determine the extent to which its work might affect the scope and timing of our own. It was also designed to assess the extent to which internal audit constituted an effective part of the managerial control system, to identify opportunities for improving internal audit, and to determine how far the Department has progressed in that direction.

15.15 As an integral part of our audit we examined the Department's payroll costs management systems, particularly as they relate to manpower planning, training and development, and human resource information -- activities which are crucial to ensuring effective and efficient enforcement operations. This examination was also part of a government-wide examination of payroll costs management, as reported on in Chapter 9, and included both the Customs and Excise Branches.

15.16 We reviewed a limited number of completed taxpayer audits to determine the extent, type and adequacy of the Branch's audit control systems.

15.17 The Department of National Revenue - Taxation, on behalf of the Excise Branch, performs certain tasks associated with the refunding of excise tax on gasoline purchases. In order to assess the adequacy of controls over the entire system, our audit also reviewed the functions performed by the Department of National Revenue - Taxation on behalf of the Excise Branch.

15.18 The Excise Branch uses electronic data processing systems in certain parts of its operations, although most of its revenue and refund processing systems are not computerized. Where significant electronic data processing systems were present, they were included in the scope of our audit.

15.19 We examined controls in each of the areas covered by our audit in the Ottawa, Toronto and Vancouver Regions and at the Department's Headquarters in Ottawa. The audit was conducted principally during the period from October 1978 to May 1979.

15.20 We interviewed personnel at all levels in the regions visited and at Headquarters. In addition, we examined supporting documentation and studies done by departmental personnel, internal audit reports and files, and previous work done by this Office.

15.21 Our audit was designed to highlight areas where the risk of fraud, error or abuse is high. We assessed the appropriateness of existing control systems and their ability to cope with the degree of risk involved. We also identified key control aspects that warranted improvement or re-examination by the Branch. Where control systems appeared to be adequate, we interviewed staff and reviewed supporting documentation to verify that the controls described by the Excise Branch were in fact present in the systems under examination. We did not conduct these tests in sufficient depth to uncover specific instances in which error, fraud or abuse may have occurred.

The Excise Environment

15.22 To place our findings and conclusions in their proper perspective and to help gauge their significance, it is important to look at the environment in which the Excise Branch operates. This environment not only contributes to the difficulty of efficiently and effectively controlling operations, but it also helps to create possible exposure to error, abuse and internal or external fraud. These environmental characteristics must be considered when weighing the cost of introducing or maintaining certain controls against the resulting benefits. Such benefits can be measured in terms of additional revenue, more equitable tax administration, greater voluntary compliance, reduced risk of error or fraud and other factors that management considers relevant.

15.23 This section does not attempt to analyse the effectiveness of specific controls. Instead, its purpose is to describe those elements of the Excise Branch's environment that affect its activities and the way it operates. By presenting all of these elements in one section, we can portray the environment in which many of the related revenue assessment and collection activities take place, and can demonstrate the need for more effective controls.

Voluntary Compliance

15.24 All of the taxes imposed by the Acts that the Branch administers are commodity taxes and are linked to the production, sale or consumption of goods and services rather than to the profitability of taxpayers' operations.

15.25 As in the case of other Canadian taxation programs, the Excise Branch administers a voluntary compliance (self-assessment) system. The onus is on importers, manufacturers and wholesalers to comply with applicable laws, regulations and procedures. The excise system requires those subject to excise laws to apply for licences and then to self-assess, report and remit the appropriate duty and tax regularly.

15.26 Because taxpayers are expected to comply voluntarily and because audits of taxpayers may cover several prior years, the Branch does not audit all taxpayers every year. Accordingly, the Branch pursues its enforcement activities selectively.

15.27 There are many enforcement procedures that the Excise Branch can use either singly or in combination. For example, it can provide information to taxpayers to make them more knowledgeable, or it can carry out enforcement procedures to detect and deter non-compliance. The task of determining the optimum balance between these complementary procedures is an essential but difficult one, particularly in view of the natural tendency of taxpayers to try to minimize their tax liabilities.

Judgment and Discretion Levels

15.28 The Canadian taxation system separates the setting of tax policy from tax administration and enforcement. The Excise Branch assumes the day-to-day responsibility for interpreting and enforcing relevant legislation and for designing systems for administering that legislation in the most cost-effective manner. The Department of Finance has prime responsibility for formulating tax policy, although from time to time other governmental departments and central agencies contribute to this process.

15.29 As might be expected in administering such a program as Excise, a number of activities rest on the fine line between tax policy and tax administration. These activities create the need both for advice on the practical problems of applying tax policies and for interpreting these to the public when the Department of Finance contemplates revising such policies. Other activities require participation on inter-departmental committees which consider various matters relating to the classification of specific products for tax purposes and the granting of remissions.

15.30 Other functions that the Branch carries out also demand that its staff exercise high levels of judgment. For example, for many years the Branch has practised a form of tax equalization by establishing calculated or "notional" values for certain goods. Excise legislation does not cover this practice. Because this activity takes place outside the strict confines of the law, taxpayers are precluded from appeal procedures beyond the Minister of National Revenue. Thus, the need to ensure effective controls over the way in which such judgment is exercised is essential.

15.31 In still other areas, the Branch must react to the effects of decisions made by other departments and agencies about the treatment of specific taxable events, such as remissions granted to a corporation for goods produced and sold for specific purposes. Other departments sometimes initiate remissions to a taxpayer as part of an incentive package, which may include grants or assistance to stimulate industry or to alter industrial patterns in Canada. The Excise Branch must then cope with demands from other taxpayers in parallel situations who have not been granted similar remissions.

15.32 The Branch makes interpretations designed to provide the most equitable evaluation and classification of goods under excise laws, and then communicates these to taxpayers. Thus, in carrying out its mission of collecting the correct excise duties and taxes, the Excise Branch often must determine what is "correct" and then collect the amount according to its definition of correctness. In doing this, Branch personnel are required to exercise a considerable amount of discretion. Judgment must be brought to bear, often initially by field staff, in interpreting the fine line between legal tax avoidance and illegal tax evasion.

15.33 In some areas, high discretion levels combine with other factors such as time pressures. For example, the Branch is under pressure to make both its legislative interpretations and its refunds without delay.

15.34 Establishing control systems in this highly judgmental, highly discretionary environment is a complex but necessary task if the Excise Branch's interpretive and enforcement activities are to provide a strong incentive for voluntary compliance by taxpayers. It is therefore a difficult but critical task to establish the proper control systems initially and then to ensure the continuing efficiency and effectiveness of those controls.

External Factors

15.35 To respond to external factors the Excise Branch must be able to design, implement or revise its administrative systems, often on short notice. For example, the Branch must react quickly to changes in tax policy. Because the Branch must do these things without delay, a danger exists that it will not be able to find the time or the expertise to put appropriate control mechanisms in place.

15.36 Another example concerns the Branch's responsibility for analysing the effectiveness of penalty structures and recommending appropriate penalty levels. However, the Branch does not have the final responsibility for determining either the structures or the levels, even though the cost-effectiveness of programs such as taxpayers audits in acting as a deterrent to non-compliance depends to some extent on the effectiveness of the penalty system. Penalty structures that are set at an optimum level help to encourage voluntary compliance and thus reduce the need for repeatedly auditing the same taxpayer.

15.37 At the same time, the stability of most of the population to which excise laws and regulations apply allows the Branch to apply control systems that need respond only minimally to external variables. This facilitates the planning, design and consistent application of such systems.

Summary

15.38 In summary, the effectiveness and efficiency of the Excise Branch is affected not only by management decisions but also by the nature and extent of control mechanisms allowed for in law. Although the impact of the matters discussed above has not been specifically measured, it is clear that this organization, which collects about \$6 billion a year, faces a high risk of error or fraud both internally and externally. Accordingly, the nature of the Branch's operations demands that its controls be capable of dealing effectively with this degree of exposure.

Summary of Audit Observations

15.39 Our audit showed that the Excise Branch carries out all the basic activities necessary for conducting the Excise Program effectively and efficiently. These include the primary types of enforcement activities required (e.g., taxpayer audit) and the means to control them (performance information and quality control groups).

15.40 Managers at Headquarters and in the regions have demonstrated an interest in improving the management of the Branch's operations. Recently, for example, the Branch has established performance information systems, updated its methods for selecting taxpayers for audit and has begun to provide better training to its staff.

15.41 Notwithstanding the above, one of the key conclusions arising from our audit was that the Excise Branch's systems and procedures could not reliably indicate to Parliament the extent to which the Branch was accomplishing its objective of collecting the correct excise duties and taxes due under the law. We also concluded that the Branch needed to substantially strengthen certain of its control systems in order to bring them up to a level which we believe is commensurate with the control needs imposed by the nature of its operations.

Performance Information

15.42 Even though the Branch had established a number of useful performance measures, these did not compare how much revenue the Branch was actually collecting with a reliable estimate of the amount that it should have been able to collect under existing legislation. This information is essential both for Parliament to assess the Branch's effectiveness and for management to make the most appropriate decisions in planning and allocating resources.

15.43 For certain activities, such as collecting assessments made on taxpayers, the Branch has developed sufficient performance information to indicate how effective its operations are. In other areas of enforcement, such as audits of taxpayers, the Branch's performance information systems have yielded important information about the amount and cost of work done and the levels of service. However, these systems have not provided reliable information on the quality of this work.

15.44 The Branch must collect data on the quality and consistency of its work. It must then combine these data with the other performance information that it now accumulates before such information can accurately reflect how efficiently the Branch carries out its key enforcement activities such as taxpayer audits.

Revenue Control Systems

15.45 Our audit of the control systems showed that the Branch had provided for the processes necessary to conduct its excise enforcement operations successfully. For example, the Branch recognizes that supervision and quality control are fundamental to the adequate control of excise revenue audits, and has established both these functions in the organization. We concluded, however, that the manner in which certain of these essential controls were being applied would require substantial improvement before they could ensure reliable, efficient audits of consistent quality.

15.46 These improvements were required in four key areas: first, the provision of a level of supervision commensurate with the discretionary and sensitive nature of taxpayer audits and the risks involved in conducting them; second, the development and subsequent evaluation of new audit practices and the implementation of those that proved to be effective and efficient, and their clear communication to field staff; third, quality control to assess the adequacy of audits done and the use of quality control results to improve procedures; and finally, the development and training of personnel.

15.47 An important observation arising from our audit was that management was aware of almost all areas which needed review or strengthening. Managers were looking for solutions to problems, and in a number of instances they had begun to conduct reviews or were carrying out programs to correct these weaknesses. We realize that, in some areas, making these changes will require much effort, possibly over a long period of time. This is because many long-standing traditions, attitudes, ingrained work standards and motivational factors will have to be changed in the process.

15.48 The Branch recognizes these as potential obstacles to change and is trying to find ways of overcoming them. For example, management is installing additional training facilities, such as the Customs and Excise College, and is improving its manpower planning by determining its experience requirements for key professional and managerial positions.

15.49 Although managers have been taking positive steps, we believe that the Branch can and should do much more to bring both performance information and enforcement activities controls to the appropriate level. Accordingly, this report discusses the need and opportunities for further improving management and control systems, particularly by:

- developing and implementing performance measurement systems that will show the extent to which the Excise Branch collects the duties and taxes due the Government under the laws which it administers and by reporting this information to Parliament;

- refining existing management information systems to ensure that they include reports on the quality of work;
- developing information which those responsible for controlling day-to-day operations can use for detecting emerging problem areas and for taking remedial action;
- determining the adequacy of alternative enforcement methods and communicating this information to staff to help ensure consistency, efficiency and effectiveness;
- elevating and enlarging the supervisory process in enforcement activities to one that involves more than a mainly administrative function, thereby ensuring that it provides the leadership and guidance that staff need;
- establishing criteria on which quality control can be based;
- continuing the pursuit of better training which management has already recognized as essential to effective and efficient operations; and
- continuing efforts to derive the maximum benefit from the key area of internal audit.

Performance and Accountability Information

15.50 This section of our Report focuses on the extent to which the Branch has established satisfactory procedures for measuring and reporting the effectiveness of its programs, and examines issues relating to its performance measurement systems.

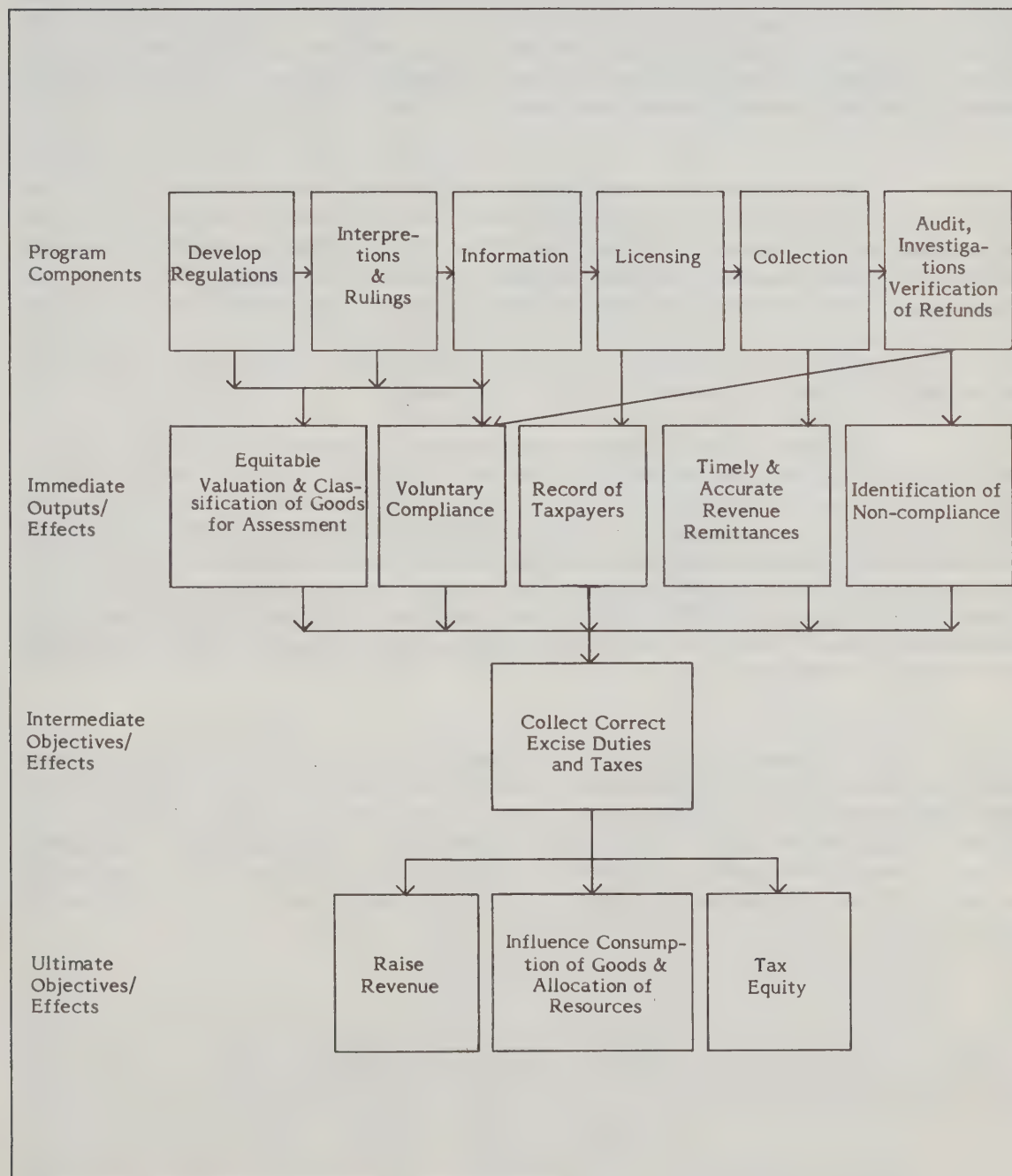
Excise Program and Branch Objectives

15.51 We constructed an accountability model of the Excise Program to identify program objectives, to determine the extent to which operational activities and objectives are related and to help determine which of these can be measured at reasonable cost. This model, shown as Exhibit 15.1, was prepared from documents, such as the Estimates and departmental publications, and from interviews with departmental personnel.

15.52 Interviews with excise and other government officials indicated that the Department of Finance is responsible for the ultimate objectives of the Excise Program, which are to raise revenue and influence the consumption and allocation of resources, and which contribute to tax equity (see Exhibit 15.1).

DEPARTMENT OF NATIONAL REVENUE
CUSTOMS AND EXCISE

EXCISE PROGRAM: ACCOUNTABILITY MODEL



15.53 The Excise Branch is primarily an enforcement agency and, although it participates in policy or near policy decisions, it is not in a position to measure the success of its operations in meeting the Program's objectives. This form of program measurement and the reporting of its results rest more appropriately with the Department of Finance. Thus, our audit of the Excise Branch did not examine this issue.

15.54 However, as illustrated in Exhibit 15.1, we identified an objective for which the Branch can and should measure and report its performance. That objective is to collect the correct excise duties and taxes. The Branch's senior officials indicated to us that they interpret this objective as meaning collecting excise duties and taxes due under the law.

15.55 In this context, collecting excise duties and taxes directly contributes to the ultimate objective of collecting funds for government programs. It also contributes to the tax policy objective of ensuring equitable distribution of the tax burden, and to the economic policy objective of influencing both the allocation of resources and the type and level of goods consumed.

Reporting of Performance Information to Parliament

15.56 At present, the performance information provided to Parliament on the Excise Program's intermediate objective of collecting the correct excise duties and taxes consists primarily of historical data on the amount of revenue collected, listed according to the Acts under which it was collected. The information reveals only the cost per dollar of revenue collected which, in our opinion, does not provide any indication of how effective the Program is in achieving its "intermediate objective". This information provides little insight into the central performance issue: i.e., how much revenue the Branch actually collects compared with what it theoretically could collect.

15.57 Our analysis of the Excise Program accountability model indicated that the issue central to the management of the Program is the tax-gap. This gap represents the difference between the tax that the Branch should have collected and the tax that it actually did collect. It would be of equal importance to both management and Parliament. It would indicate to Parliament the extent to which its tax legislation has been effectively administered. Its inclusion in both the Estimates and Public Accounts would represent a major step toward improved accountability for the Excise Program.

15.58 The Branch does not now have an estimate of the tax which it could collect, but has begun to consider how it might develop one at reasonable cost. For example, although revenue forecasts by commodity might not be accurate enough to use as a basis for making such an estimate, it would be possible to classify taxpayers into groups and to conduct tests to determine the extent to which audits have identified non-compliance. The results of these tests might then be used to project the potential collectible tax.

15.59 We recognize that it would not be reasonable to expect the Branch to estimate precisely the duties and taxes collectible under existing excise laws. Such an estimate will always be subject to certain confidence limits because of the number of variables which must be taken into account in preparing it. However, we believe that it would be worthwhile for the Branch to explore the approaches that could be used to produce such an estimate reliably and at reasonable cost. For example, as part of our audit of the Customs Branch in 1978, we conducted tests to ascertain the gap between the revenue that the Customs Branch actually collected and that which it might have been expected to collect through its various activities. The Excise Branch might consider using techniques similar to those used in the Customs Branch, appropriately modified to suit its own requirements. Further, we note that at least one other revenue enforcement agency has conducted considerable work in attempting to identify its "revenue gap" and has prepared an estimate for its own operations, subject to certain unknowns which were acknowledged.

15.60 To some extent, estimating the revenue due under existing excise laws would be facilitated by the fact that the bulk of the revenue is collected from a few large taxpayers in each major commodity category. The Branch could concentrate its efforts on estimating revenue potential from these taxpayers and then make appropriate assumptions for the balance of the taxpayers in each commodity class.

15.61 In addition to using direct measurement techniques, such as the reassessing of audits to detect additional non-compliance, the Branch might consider the possibility of estimating the total revenue collectible on a number of specific commodities or products for which reliable production, cost and consumption statistics are available. An example might be the excise duties and taxes on alcoholic beverages, whose production and sale are rigidly regulated and monitored by various government agencies.

15.62 As discussed later in this Chapter of our Report, the Branch might also use the results of past enforcement activities and revenue collected as a basis for making an estimate of the excise duties and taxes collectible under existing laws. However, it would have to determine the extent to which existing enforcement activities are conducted reliably and consistently before it could have any confidence in the validity of an estimate arrived at in this fashion.

15.63 If Parliament had this information together with information on the cost-effectiveness of various alternatives, it could quantitatively examine the merits of reducing the tax-gap either by increasing penalties, by spending more money for audits, or by providing more information on tax laws and regulations. This could be supplemented with information on the number of audits done, their costs, and on taxpayer trends and revenue by various commodities. All of this information is currently available within the Branch.

15.64 *The Branch should carry out analyses and tests to ascertain the most appropriate method of obtaining the information necessary to demonstrate the extent to which it is achieving its objective of collecting the correct excise duties and taxes. The Branch should report this type of information to Parliament.*

Excise Branch Performance Information

15.65 All of the day-to-day activities of the Branch should contribute to the intermediate objective of collecting the correct duties and taxes. In some cases it may be possible to determine how the relative efficiency and effectiveness of different activities (for example, the processing of monthly sales tax returns and associated payments) relate to reaching that objective. In other cases it may be possible to use the historical results of enforcement activities to estimate effectiveness.

15.66 The Branch has recognized the potential for using the results of historical enforcement activities as indicators of "correct duties and taxes". Although it plans to do so in the future, it has not yet done an assessment to determine whether or not the use of this indicator is appropriate and reasonable. Further, using historical enforcement results to indicate effectiveness requires that certain conditions be met. Some of the most important of these are that enforcement practices must initially be valid and be consistently and properly applied.

15.67 A review of control practices that dealt with the development and day-to-day execution of taxpayer audits along with a review of subsequent monitoring and efficiency measurement practices led us to conclude that the Excise Branch had not refined these practices sufficiently for it to assess the extent to which the Branch has met its own requirement for consistent and valid enforcement activities.

15.68 Measuring effectiveness cannot be separated from measuring efficiency in arriving at a reasonable assessment of performance. The Branch has devoted considerable efforts to developing its performance measurement and reporting systems. It has developed indicators which are intended to show how efficiently and effectively the Excise Branch conducts certain of its operations (e.g., collection work and taxpayer audits).

15.69 Some of the Branch's operations, for example the collection of revenue from taxpayers after they have been assessed and the processing and recording of the payments received, are particularly amenable to measurement. This can be done by comparing results with predetermined standards. The Excise Branch now has systems for doing this.

15.70 In other areas, particularly the primary enforcement function of taxpayer audits, measuring efficiency is not as straightforward a task as it is for

activities that require lesser amounts of judgment and which are affected by fewer variables. Measuring the efficiency of taxpayer audits requires not only that the Branch determine the amount of work done and its cost, but also that it determine the quality of the work. The Excise Branch has adopted standards or criteria which it believes all of its audits should meet and uses a number of indicators to assess its operations. These indicators relate to volumes of work and to time. For example, the Branch has specified a turn-around time for processing refund claims, and has specified penetration levels for audits and expected tax changes for each day of audit work done.

15.71 However, the Branch can only partly measure efficiency because it has not yet clearly defined specific criteria which it can use to assess whether or not its audit standards have been met. In addition, many of the time/cost standards related to audits (which cover about 800 of the 1,555 person-years in the Branch) are based solely on information derived from results of past work. Efficiency standards established on the basis of past work will reflect any inefficiencies associated with such work.

15.72 We recognize that it is not possible to set precisely engineered standards for a process in which judgment plays a major part. However, there is still a need to ensure that standards based on past performance are adjusted to reflect the level of quality currently expected and that these standards are subject to careful review to eliminate the effects that any past inefficiencies may have had on them. The Excise Branch recognizes this problem in its existing measurement systems and is now reconsidering its approach to measuring the efficiency of its audits.

15.73 In addition to the comprehensive performance information previously discussed, our audit also examined the availability of more specific performance information to assist managers in assessing and directing their current operations. This kind of information is necessary for assessing how changes in supervision, approach, or procedures will affect or have affected the efficiency of audits. For example, the process of conducting taxpayer audits requires proper selection of taxpayers to be audited, the development of practicable and effective audit procedures and practices, and the proper application of these practices.

15.74 Valid audit procedures, no matter how well developed, will be of little use unless they are well applied in the field. The ultimate efficiency and effectiveness of the audit is affected by how much planning management has done and by the guidance, supervision and training it has given to field personnel.

15.75 General inferences can be made about an audit by examining how the various phases of the audit are carried out. These include the amount of time spent planning an audit and conducting it in the field compared to the amount of time spent in the office and in providing supervision to field staff.

15.76 To understand why the efficiency and effectiveness of audit work vary, it is necessary to monitor the proportions of time spent on different parts of the audit process over an extended period. It is then possible to determine how varying these proportions affects other components of the audit process, and hence how the variances can lead to inconsistent audits. When management has this information, it can act to correct the inconsistencies.

15.77 During our review we noted that this type of information generally had not been developed. In some cases, managers appeared to know about the potential for using the type of information discussed above -- particularly in the smaller locations where the size of operations allowed managers to observe audit work directly. However, in the larger operating locations, there is a need for the Branch to use a more organized method for determining how various components of the audit process relate to one another and how they combine to produce a more effective or efficient audit. Such information would also assist in analysing the results of quality control reviews and in formulating operational policies and procedures.

15.78 *The Branch should ensure that managers have enough information about how varying the emphasis of different components of the audit correlates with changes in the efficiency and effectiveness of audits so that they can take prompt remedial action where warranted.*

15.79 *The Branch should augment its existing performance information by establishing procedures to measure the extent to which its audits achieve expected levels of reliability and consistency. In addition, the Branch should review its use of historical standards in its performance measurement system.*

Controls in the Excise Revenue System

15.80 As previously discussed, and as shown in Exhibit 15.1, the Excise Branch conducts a number of enforcement activities designed to ensure compliance with the legislation that the Branch administers. These activities comprise the four distinct elements of:

- identifying those who should pay taxes;
- conducting taxpayer audits;
- verifying and paying refund claims; and
- collecting monies due the Crown.

15.81 These activities are not only essential for detecting error, fraud or abuse, but they also play a key role in preventing them from occurring.

Identifying Potential Taxpayers

15.82 The onus is placed on potential taxpayers to identify themselves to the Excise Branch. Taxpayers are responsible for applying for and obtaining the appropriate licence to allow them to purchase goods tax exempt, and for reporting and paying taxes at the time of sale or use. If such a licence is not obtained, the buyers of taxable goods must pay the tax when they purchase them. In this case, the seller collects the tax and remits it to the Branch.

15.83 A sales tax licence results in benefits to the taxpayer. For example, the cost of inventories is reduced because sales tax is paid after goods are used or sold, rather than initially when they are purchased. Thus there are incentives for taxpayers to request such licences voluntarily. Conversely, some taxpayers may perceive that there are certain disadvantages to having a licence. These disadvantages include the requirement to file regular returns and the fact that, in some instances, licensees pay more tax because the tax base includes additional components such as further processing costs including labour. Taxpayers may also perceive that the Branch subjects them to less scrutiny if they do not have licences.

15.84 The Branch's main efforts to identify taxpayers are devoted at present to verifying requests for licences to ensure that licensees meet the licensing provisions. In addition to the procedures it has developed to deal with this area of enforcement, the Branch also has certain procedures for following-up information obtained from informants and from taxpayer audits, and for monitoring public information concerning the establishment of new businesses.

15.85 Our audit indicated that these enforcement procedures, although recognized as useful, have not been consistently applied in the Branch. We noted that during the last five years the Branch has applied few if any penalties for failing to obtain a licence.

15.86 We also observed that problems existed in determining whether or not all those who should be licensed do in fact obtain a licence. These problems arise because the Branch has only limited access to taxpayers' records in its attempts to enforce its licensing provisions.

15.87 *The Branch should assess the extent to which the current practices that it uses for identifying taxpayers who either should be licensed or who should be paying tax, or both, actually accomplish this purpose. The Branch should either alter those practices where appropriate, or pursue legislative changes if these are required.*

15.88 *The Branch should analyse the specific impact that its restricted access to taxpayers' records has had on the cost and effectiveness of enforcing licensing regulations, and should seek changes in its access provisions where appropriate.*

Taxpayer Audits

15.89 Auditing taxpayers is the key enforcement activity of the Excise Branch and consumes most of its resources. Successful audits must not only detect non-compliance, but must also serve to deter future non-compliance.

15.90 During our audit we reviewed the taxpayer audit process including the key elements of:

- selecting taxpayers to be audited;
- establishing practical, efficient and effective audit procedures and practices;
- conducting the audits properly; and
- measuring the efficiency and effectiveness of the audit process.

It should be noted that each of the above elements has an impact on the entire audit process and that the strength of the process is determined by its weakest link. For example, poorly developed audit procedures, however well applied, may still result in general inefficiency as well as a failure to detect non-compliance or a failure to encourage subsequent voluntary compliance.

15.91 **Selecting taxpayers for audit.** In the early 1970s, the Branch developed a partly computerized selection system designed to provide greater consistency in the selection of taxpayers for audit by accumulating and ranking past audit and compliance data. This system was also intended to improve the deterrent effect of audits. The nature and volume of data to be dealt with in taxpayer audits clearly justify using computers in the selection process.

15.92 At the time of our audit, the Excise Branch had recognized a number of limitations in its selection system and was looking for ways of improving it. Among the key problem areas in the selection system were the incompleteness and inaccuracy of the information bank on which it was based, its lack of sensitivity to certain factors such as the complexity of the auditee's organization, the lack of current information in the data base, and the need to develop benchmarks for measuring the system's reliability. For example, useful information concerning current sales levels and tax remittances could be gathered from the collection system and incorporated in the bank of information used to select

taxpayers for audit, but this was not being done. It might also be possible to update licensee complexity factors by obtaining the required information from the taxpayers concerned.

15.93 The above problems may have resulted in part because the designers of the system failed to consult sufficiently with the audit group. In addition, the Branch may have underestimated the level of expertise necessary to design, develop and implement this type of system.

15.94 A large part of the selection system is judgmental and requires staff to choose the specific taxpayers they believe should be audited, within the broad limits prescribed in the computerized part of the system. We enquired into the procedures and practices used to help ensure that selections were made consistently across the country. Although we found that provision had been made to ensure that taxpayers who had not been audited for a long time were included in the schedule of current audits, we found a number of differences in the way staff in the various regions approached the selection process, and a need for clear national guidelines on it.

15.95 *During its current review of the audit selection system, the Excise Branch should stress the establishment of measurement procedures by which to judge the system's effectiveness. It should also stress the identification of other factors which could be used to predict the need for auditing certain taxpayers. In addition, the Branch should establish further guidelines to ensure that selection procedures throughout the regions are consistent, that they meet the Branch's needs, and that regional staff understand what factors are taken into account by the computerized portion of the selection system.*

15.96 **Developing audit practices (procedures).** Another important part of the audit process is the development and establishment of effective audit practices (including procedures). We examined the way in which these had been developed and implemented by the Excise Branch. Although, for the most part, audit practices are designed at Headquarters, the regions offer some input and design their own for certain areas.

15.97 At the time of our audit, the Branch was working on a number of important projects for developing new practices, including those relating to the audit and use of computers in taxpayer audits. Such tools as computer-assisted audit techniques are essential if the Branch is to cope successfully with the volume of transactions in, and the sophistication of, many taxpayers' accounting systems. We strongly support these projects and the adoption of modern audit techniques.

15.98 However, when the Branch is establishing new practices it should first determine the extent to which they will likely detect or deter non-compliance. It

should also attempt to assess the possible effects that implementing them will have on cost-benefits and other related issues. The Branch, with certain exceptions, has not generally set criteria for measuring the effectiveness of its new practices. Therefore, it will be difficult to measure the extent to which they achieve their objectives when the Branch applies them.

15.99 It is also important that the Branch test its new practices before they are implemented to determine their practicability, their implications for staffing, whether or not additional training may be required, and the extent to which increased supervision may be needed. Such tests were not being done formally. Nor were the results of information gathered informally being analysed.

15.100 Although we recognize that it may not be either practical or possible for the Branch to perform such tests on individual practices, it should be possible to test various combinations of them periodically to determine their effectiveness.

15.101 How well new practices are implemented depends on the amount of information and training in their use that field staff receive. As discussed in the next section, existing manuals do not provide this information, and we noted that supervisors provide little on-the-job training in this area. We also noted an instance in which the purpose of a new practice had been defeated because some field staff did not understand it, as supervisors had not explained it fully. The Department's formal training courses are discussed separately in paragraphs 15.150 to 15.162.

15.102 *The Branch should develop criteria against which to assess the reliability and efficiency of new audit practices when they are being developed and ensure that such assessments are made.*

15.103 **Guidance provided through documented material.** In its manuals and guidelines, the Branch has formally established the standards which it expects its field audit staff to meet. These standards are general and are consistent with sound audit practices recognized implicitly in most forms of audit. For the most part, they relate to the areas of adequate documentation and supervision.

15.104 Meeting these standards depends not only on the knowledge, motivation and integrity of the field audit staff, but also on the extent and quality of the guidance, supervision and training they receive. These are essential for helping to ensure that the Branch maintains a consistent level of quality throughout its taxpayer audit activity.

15.105 Our major conclusion in this area is that the Excise Branch has relied too heavily on the individual knowledge and judgment of its field personnel. The

existing documentation of standards, procedures and practices did not provide the amount of guidance which, in our opinion, is required. We noted that manuals and guidelines generally included only broad standards and referred only to some of the more technical aspects of legislative matters.

15.106 Existing manuals provide field staff with information about different audit methods and techniques, but offer little guidance about when, how and why they should be applied. In addition, the manuals contain little material about what might constitute adequate audit evidence, and do not show field staff how they should justify their selection and use of various techniques in different circumstances.

15.107 We recognize that the audit function requires considerable judgment and that it would be impractical, if not undesirable, to try to incorporate in a manual everything an auditor should know. However, there is a need to document more fully a number of subjects related to planning, conducting and completing taxpayer audits. Documentation would help field staff to exercise sounder judgment and would subsequently help in monitoring the quality of their work.

15.108 *The Branch should reassess the type and degree of written guidance which should be provided to field staff to ensure that they have the appropriate information for reference purposes.*

15.109 **Supervision.** We believe that proper supervision is one of the most important elements in ensuring efficient and effective audit processes and that it is the key element of control. Our audit team reviewed this process and noted that the need for supervision was recognized both organizationally in the Branch and in its formal "audit standards".

15.110 We found, however, that to a large extent supervisors tended to play an administrative role rather than becoming involved in the audits done by field staff. We noted that the amount of supervision given in many instances depended too much on the perceived needs of and requests from field staff, and not on a predetermined plan for providing adequate supervision. Supervisors, managers and other regional and headquarters executives rarely visit auditors in the field to assess the quality of the planning, conduct and completion of audits. Supervisors often reviewed files in a cursory manner and did not appear to feel responsible for the audit content and quality. Nor were they being held responsible and accountable for these functions. We noted that the extent to which files adequately demonstrated the soundness of the judgment expressed by audit staff varied widely.

15.111 The Excise Branch is aware of this problem and has made some attempts to increase the supervisors' involvement in the professional aspects of taxpayer audits. However, these efforts have not met with uniform success

across Canada. The Branch has recently introduced more formal quality control practices, but these have not been designed to replace supervision; nor would it be appropriate for them to do so.

15.112 The lack of supervision is not new to the Branch; the present situation has existed for some time. The problem stems in part from misconceptions on the part of field staff and supervisors about the purpose and need for supervision. We noted that supervisors often believed that they should not challenge the field staff's judgment, and that they need not be fully involved in field work. This is particularly significant when considering the audits of large taxpayers. These problems may perhaps be based on a lack of motivation and incentives which are necessary if the supervisory process is to function properly.

15.113 In our opinion, both formal technical guidance and a strong supervisory role are required to ensure that audit standards are met and that the Branch gives sufficient weight in its day-to-day operations to staff levels and experience, and to the complexity of modern audit tools and industry patterns.

15.114 To a large extent, the success of further efforts to refine audit practices and to achieve improved efficiency and effectiveness will depend on how well supervisors provide the direction and leadership needed in field operations.

15.115 *The Branch should shift the emphasis of the supervisory function from the performance of administrative duties to involvement in the professional aspects of taxpayer audits.*

15.116 *The Branch should hold supervisors accountable for the contents of audit files and for the quality of work done by field staff by monitoring the involvement of supervisors in all aspects of taxpayer audits and by ensuring that this involvement forms a critical part of appraisals done on supervisors.*

15.117 **Quality control.** In measuring the efficiency and effectiveness of taxpayer audits, it is necessary to consider not only the time and cost involved and the number and type of taxpayers covered by audits, but also the adequacy of the audit work itself. To evaluate how well field staff perform audits, the Branch has introduced a quality control review program at the regional level. The potential benefits of such a program are obvious.

15.118 Successfully introducing a quality control program requires detailed benchmarks to define the level of expectation. The Branch can then evaluate the quality of work done in relation to those benchmarks. The purpose of quality control should be clear to all staff, and the results should be reported in such a way that they contribute to the entire performance information system. The

Branch's quality control program has encountered problems in each of these respects.

15.119 Our interviews with field staff and supervisors and our reviews of completed audit files have led us to believe that to some extent the present quality control program is viewed as a reason for reducing the supervisors' involvement in audit files even further. This reduction is not warranted because, as noted previously, the quality control program is not a substitute for supervision and it would not be appropriate to attempt to use it as such. It is post-facto and selective. Supervision should be current and comprehensive.

15.120 Few consistent criteria have been established on which to base quality control reviews or against which to analyse the results of such reviews. It was therefore unclear to us on what basis the quality control staff could indicate that a file either had or had not met standards of quality.

15.121 We also noted that quality control staff had received little, if any, special training and that in some cases their experience and knowledge levels were lower than those whose work they were assessing. In addition, reporting relationships for quality control groups varied in different regions and were not always commensurate with the need to demonstrate the objectivity of this function.

15.122 The Branch has not yet developed the indicators or reporting systems necessary to ensure that it can use the results of quality control work as an integral part of its performance information system.

15.123 *The Branch should establish benchmarks on which to base its quality control reviews and should develop reporting systems commensurate with the importance of this function. Quality control results should be formally incorporated in performance information reports.*

Refunding Activities

15.124 The Branch processes a substantial number of tax refunds every year. These refunds are necessary because of errors made by taxpayers, special provisions which allow for refunding of taxes paid at the time of purchase, and special programs designed to provide relief from excise taxes, such as the refund of the excise tax on gasoline.

15.125 Refunds under the first two of these require an audit and subsequent processing of refund claims submitted by taxpayers. These claims generally relate to tax previously paid, and documented evidence that the taxpayer has paid the tax initially is available for audit to support these claims. The difficulty in

processing these refund claims is in assessing the validity of the request for exemption. To make this assessment, the Branch conducts different types of refund audits either in its own offices or on the taxpayer's premises. In addition, recurring taxpayer audits include reviews of claims paid previously. We noted that the Branch has developed criteria to govern these refund audits, although in some cases it was not applying them consistently. As in the case of taxpayer audits, however, the extent to which present practices were successful in meeting these criteria was not clear. Our comments on quality control discussed in paragraphs 15.117 to 15.123 are also applicable.

15.126 We also noted that, with certain exceptions, the Branch had established well defined routines for processing claims after audit, and that these routines included the necessary controls.

15.127 The necessity for processing refunds in connection with gasoline purchases results primarily from the Branch's responsibility for administering the Gasoline Tax Refund Program which was implemented in 1975. This Program calls for the refund of excise tax on gasoline to certain sectors of the public under specified circumstances. Last year the Branch processed approximately 700,000 claims amounting to \$170 million. This system is different from the Branch's other refund systems in terms of volume and its inherent control features. Its operations also differ, the system being the responsibility of the Branch, although it is operated jointly with the Department of National Revenue - Taxation.

The system provides for the following:

- initial processing and validation;
- cheque issue; and
- post-audits.

Pre-audits can be done at the discretion of the Branch.

15.128 This system is not complex. However, it carries with it an intrinsically high exposure to error or fraud because of its widespread applicability and the obvious attractiveness of obtaining a refund. This exposure was recognized in parliamentary debates when the gasoline tax refund legislation was proposed. During the last several years, a number of attempts have been made to defraud the system. In some instances these attempted frauds were significant and well organized.

15.129 Because of this high exposure, control practices and procedures are particularly important. The Branch knows the need for these and has carried out several reviews aimed at ensuring that the necessary controls are in place. As well, the internal audit group recently reviewed controls for part of the system and made recommendations for corrective action.

15.130 Our audit of this system did not attempt to determine the extent of fraud or abuse that has existed in the past. This is a continuing responsibility of the Branch. We felt, however, that the Branch could substantially improve its procedures for making such a determination. We noted that the Branch is currently considering a number of ways of strengthening its controls in this area.

15.131 The refund system, as previously stated, is operated jointly by the Branch and the Department of National Revenue - Taxation. In situations where a service bureau approach is being used to administer a high risk system, an important control feature is the clarity and communication of the various participants' control responsibilities. In the past, these have not been clear for the gasoline tax refund system. No formal operating agreement has existed between the participants. We understand that the required agreement is currently being drafted. Another major control issue surrounding this system is the extent to which initial validation procedures are provided for and carried out. Given the volumes of claims processed, certain practices may not be cost-justified or even practical. For example, receipts do not have to be submitted at the time of filing a claim because it would not be practical to attempt to deal with the resulting paperwork.

15.132 This control gap needs to be filled by other pre-payment validation procedures and post-audits. Relying solely on post-audits would probably not be cost-justified and would leave the Branch vulnerable to fraud. The Branch recognizes this and has attempted to put controls in place which would detect fraud and abuse at the earliest possible time. However, there is a need to find the optimum balance between post-audits and effective pre-validation practices. The Branch has established a number of routines and processes designed to alert it at an early stage to the possibilities that a claim may be in error or completely invalid.

15.133 Unfortunately, these routines tend also to identify many taxpayers for pre-payment investigation, and in so doing have created a large workload. Pre-investigation is therefore limited to some extent by the amount of time available to investigate a large number of claims selected for review before payment.

15.134 To solve this problem, the Branch needs a screening system sensitive enough to detect possible significant errors, fraud or abuse in all claims received. At the same time the system must be sufficiently discriminating so that it will not identify claims with a lower risk of error, fraud or abuse. During our audit, we noted that alternatives or supplements to existing screening procedures do exist. However, the Branch has neither put them in place nor fully examined their potential effectiveness.

15.135 One such procedure involves the sharing of information between both Customs & Excise and Taxation, two sister organizations under the same Minister. We note that draft agreements between the Department of National Revenue -

Taxation and the Excise Branch allow for sharing arrangements which would enable validation procedures to be designed to ensure that claims originate from claimants who actually do exist and who, because of their occupation, would normally be eligible for refunds. In addition, further effort could be made in other control functions within the Department such as the internal audit group to ensure that the Branch stresses the identification of potential organized internal fraud.

15.136 *The Branch should assess the effectiveness of its audit procedures related to refund claims at the same time as it assesses those related to regular taxpayer audits. The Branch should ensure that it consistently applies and interprets its procedures throughout Canada. For the gasoline tax refund system, the Branch should:*

- *install an operating agreement as quickly as possible to delineate an appropriate division of responsibilities between the Excise Branch and the Department of National Revenue - Taxation; and*
- *re-examine the efficiency and effectiveness of controls in the system to make them consistent with the high exposure associated with it.*

Collection

15.137 Collection units in each region carry out procedures for following up on delinquent accounts and recovering of assessments. These activities involve monitoring tax accounts and taking legal or other remedial action when required. They also include processing monthly taxpayer returns. The financial group in each region is responsible for the actual handling and depositing of money.

15.138 The Branch has instituted systems for measuring and reporting the efficiency and effectiveness of its collection activities. This area is particularly amenable to establishing performance measurement standards and indicators because a number of its components, such as ledger keeping, require less judgment than the taxpayer audit and interpretation functions.

15.139 We concluded from our audit that when appropriate ledger information is available, the systems and procedures can identify taxpayer non-compliance promptly. We noted, however, that the Branch could improve certain of its basic controls over the records it uses to account for individual taxpayers and which it also uses in the collection process. We also noted that systems for setting collection priorities had not been developed at a national level and were not consistently applied.

15.140 *The Branch should ensure that it provides guidance to regions in setting priorities for collection and should ensure that these priorities are adhered to.*

Payroll Costs Management

15.141 Our audit focused on three elements of payroll costs management: manpower planning, training and development, and human resource information systems. We also examined other areas of personnel management to gain the perspective needed to audit these three selected areas. This section of our Report is, for the most part, applicable to both the Customs and Excise Branches.

15.142 In auditing manpower planning, we examined the Department's systems for determining manpower needs based on its operational plans; we also examined the methods used to inventory current manpower resources, to determine net staff requirements and to develop action plans to meet predicted staff needs.

15.143 Our audit of staff training and development included a review of the systems and procedures for identifying needs; planning and budgeting for programs to meet these needs; assessing the benefits and costs of alternatives; delivering training and development programs; and assessing their results.

15.144 We examined human resource information systems to determine whether managers were receiving all the personnel information they needed, whether the information was timely and accurate, and whether the benefits resulting from the information exceeded the cost of providing it.

Manpower Planning

15.145 Each year senior management updates its five-year operational plan. It communicates its objectives, strategies and priorities to line managers who then modify their operational plans and prepare detailed, one-year work plans. However, within this process the quality and completeness of work plans are not always consistent from one organizational unit to another. We noted that some work plans contained detailed breakdowns of planned results, related activities and required human resources by quarter, while others did not. For example, one unit in one region provided neither a description of its activities nor a list of planned results.

15.146 The Department has recently begun analysing and reporting on turn-over, attrition, retirements, skills, experience and other relevant characteristics of its staff. The first report that included the above information was published for the Excise Branch in February 1979. The Department's plans call for this information to be reported annually or possibly semi-annually from now on.

15.147 The Department has a system for measuring performance that regions use to translate work plans into approximate manpower requirements. The accuracy of these estimates of manpower requirements relies to a large extent on the adequacy of the performance measures used. These were discussed previously in this Report.

15.148 During the current fiscal year, the Department is testing its newly-designed Workforce Planning Process. This process provides for development of a Personnel Management Plan as recommended by the Treasury Board Secretariat. The plan will be submitted with the Estimates for fiscal 1980-81. The Department estimates that it will take two years to implement this system in all operating units and to comply fully with the Treasury Board's recommended policy. When fully implemented, the process should link manpower planning with operational and financial planning.

15.149 *The Department should continue its efforts to improve its manpower planning process by:*

- *ensuring through a challenge process that work plans are complete;*
- *identifying skill gaps for individuals and groups and by determining career paths to ensure that the Department meets its needs for staff;*
- *linking manpower planning with operational and financial planning; and*
- *ensuring that manpower requirements are based on complete and reliable performance information.*

Training and Development

15.150 Training and development are significant activities in the Department, amounting to approximately four per cent of payroll costs, representing an annual outlay of close to \$5 million. Although this amount is not large in relation to the total payroll costs of the Department, effective training is crucial to carrying out the highly judgmental and complex enforcement and interpretive tasks for which professional and para-professional staff are responsible.

15.151 Our review of the Department's efforts to provide effective training led us to conclude that the Department has put in place the mechanisms to identify training needs, to deliver training courses, to evaluate the effectiveness of training, and finally, to report on it. However, there were a number of elements in each of the above processes which required further development and strengthening to ensure that the training program, as a whole, accomplishes the objectives set for it by management.

15.152 Identification of training needs. Senior management recognizes the importance of training and has been active in identifying and analysing training needs. The Department has identified individual training needs as part of the annual staff appraisals performed by supervisors and managers. During the 1978-79 fiscal year, about 85 per cent of employees were appraised. Appraisals are prepared initially by supervisors. However, as discussed previously in this Report, we observed that supervisors were not familiar enough with the work done by their staff to adequately appraise their performance and hence identify their training needs.

15.153 Group and department-wide training needs are identified by an Excise Training Committee, the management of the Customs and Excise College and other senior operating managers; however, the training program had not yet advanced to the point where all the specific courses required had been fully identified and developed. The Department is, however, assessing certain existing courses. For example, a subcommittee of the Excise Training Committee has suggested a number of changes in the Excise new recruit training program because it had been found not to be fully satisfactory due to its length and certain parts of its content. We understand that the Department is currently implementing the subcommittee's suggested changes.

15.154 *The Department should examine the extent to which the performance appraisal system reliably identifies individual training needs to ensure that the Department derives maximum benefit from its training programs.*

15.155 Training course delivery. In 1977 the Department embarked upon a long-range project when it established the Customs and Excise College to serve as a central location for the Department's training activities. It was also intended that the College would co-ordinate training efforts, eliminate fragmentation, ensure uniform training and reduce the time needed to train staff.

15.156 Although the College has improved the co-ordination of training, considerable fragmentation and duplication still existed at the time of our audit, perhaps because of the relative newness of the College. For example, newly-hired auditors are given a basic two week auditing course in the region. However, this course duplicates part of the training that new auditors receive in the College's Basic Recruit Program. To eliminate this kind of overlap, the College has assigned staff to determine the amount and content of training being done in the regions. We also understand it plans to introduce modular courses to eliminate duplication of courses such as that referred to above.

15.157 In general, the Department has not yet completed the design and development of the courses which it requires and, as previously discussed, individual training needs identification by supervisors requires strengthening. Accordingly, the Department is not yet in a position to deliver the training needed by its staff.

15.158 Evaluation and reporting. The Department has many systems for evaluating its training programs. The systems for measuring student reaction and classroom learning are highly developed and widely used. The Department has also attempted to develop methods for assessing how trainees apply their learning on the job. However, because these methods are complex, they are not always used. In addition, the Department has not yet evaluated the results of its training courses by referring to improvements in the quality of the work subsequently done by employees who have attended the courses.

15.159 The Treasury Board Secretariat requires that a review report (the Training and Education Review) be submitted to it annually. This report contains information on training costs, courses given and participants taking courses.

15.160 The information in the review report that Customs and Excise submitted for 1977-78 appeared to be accurate and complete. However, there are few regional or branch training budgets, and those that do exist do not contain sufficient detail and have not been updated. Nor are actual costs compared to plan and variances explained.

15.161 *The Department should ensure that its reporting system for training provides for analyses of variances.*

15.162 *The Department should review and improve its methods for evaluating the effectiveness of training.*

Human Resource Information Systems

15.163 The Department has developed a number of manual and computerized systems to assist in managing its staff. A departmental task force, which is currently studying Management Information Systems, identified 11 major human resource information systems as operating during the audit period.

15.164 Three of these 11 systems provide management with most of its human resource information. These systems are:

- the Manpower Resources System (MRS),
- the Official Languages Information System (OLIS), and
- the Attendance, Leave, Overtime, Shiftwork System (ALOSS).

15.165 The Manpower Resources System processed between 5,000 and 6,000 transactions each month. The Department's figures showed that 90 per cent of

input forms were entered into the system within three days after Headquarters received them, with a two per cent error rate on entries and a four per cent error rate for information on file.

15.166 Of the 17 reports produced by MRS, the only one used extensively was an alphabetic listing of employees by branch and by occupational group and level. Headquarters Staffing, Organization and Classification, and Personnel Services no longer use any of the reports, except the alphabetic listing.

15.167 Departmental studies show that regional management sees little merit in gathering and processing the required inputs for the Manpower Resources System because it is not able to use the outputs which are not timely, the normal processing time being 30 to 33 days.

15.168 Because of this delay, regional management has developed other systems to meet its information needs. For example, one region maintains a magnetic board showing all positions and a card system with a card for each employee. The MRS system maintains similar information although it is not as current. Similarly, another region has a mini-computer which stores incumbent and position data and manpower utilization statistics. Other regions have conducted preliminary feasibility studies relating to the use of similar equipment but have not submitted a request for the required funds.

15.169 We noted that the Manpower Resources System did not include information on incumbents' skills and experience; nor was it able to retrieve or analyse data by job function. Such information requirements must be fulfilled manually. For example, one person recently took four days to determine the number of staff in one region having experience as a port administrator.

15.170 As noted above, managers did not believe that the reports from MRS are useful. However, they did not communicate such concerns to the group which operates the system. Each year this group invites users to suggest improvements or new reports. Last year only four out of the 20 users replied. Each stated that the reports he received were adequate in the current format.

15.171 In April 1978, a departmental team began reviewing management information systems, assessing management's information needs and plans, and setting priorities for meeting those needs. In a report submitted in June 1979, the team outlined specifications for a comprehensive, department-wide Management Information System. The team is now designing approximately 12 sub-systems. One of these will be a modified Manpower Resources System integrated with other human resource information systems.

15.172 *In its current review of management information systems, the Department should emphasize the importance of eliminating duplicate systems and of ensuring that centrally-operated systems meet regional needs.*

Tax Administration Activities

15.173 The Excise Branch carries out a number of tax administration activities. It also provides policy assistance to sponsoring departments; proposes legislative amendments; interprets and disseminates information on excise laws internally; conducts surveys necessary for administering excise laws equitably; and provides taxpayers with information necessary to promote voluntary compliance.

15.174 As previously discussed, a number of these activities fall on the fine line between tax policy and tax administration. We did not examine those areas closely related to tax policy as part of this audit because it would be more appropriate to examine them as part of a more broadly-based review of this subject.

15.175 However, we did examine the procedures that the Branch used to ensure that it applies technical interpretations uniformly across Canada. These procedures include maintaining a national system for issuing rulings and interpretations, and a recently re-introduced quality control program.

Technical Interpretations

15.176 The Branch has recognized the need to update its system for cataloguing rulings and interpretations. This system included a file containing over 4,300 records. At the time of our audit, updating was almost complete and the Branch was reviewing the process for retrieving information from the files.

15.177 The Excise Branch also partly reviews the interpretations and rulings that regional offices prepare. These reviews were re-instituted in 1978, after the previous review program had lapsed. The need for this type of review program is important because of the possible impact that regional rulings and interpretations could have both on government revenue and on taxpayers.

15.178 The review work that we examined appeared to be detailed and thorough. However, as was true for taxpayer audits, the Branch is currently not in a position to gauge the quality and reliability of the regional functions. This is primarily because even though the quality control reports themselves were very detailed, no criteria existed against which to judge the significance of findings. The usefulness of observations and conclusions in quality control reports depends on the soundness of criteria on which they are based. If the criteria are lacking,

the benefits which could result from the quality control function may be lost because quality control reports will lack credibility.

15.179 In other areas, the Branch has launched a program to review excise taxes collected by the Customs Branch on imported goods. The results of this step appear to justify the review program.

Equalization Practices

15.180 As stated earlier in paragraph 15.30, the Branch conducts national surveys to establish notional values to ensure equitable tax treatment for similar goods being marketed at different trade levels. The Branch determines these notional values, which permit certain firms who make sales beyond the first recognized trade level in their industry to equalize the tax to that first trade level. Without these notional values, manufacturers' sales tax could place certain sectors of the business community at a competitive disadvantage. These surveys have broad national application, can affect revenues materially, and become the subject of eventual interpretative policy in the Branch.

15.181 In the section of this Chapter that describes the Excise Branch's operating environment, we referred to the equalization practice and noted that legislation does not provide for it. Because this activity takes place outside of the strict confines of the law, taxpayers who do not agree with an equalized value as determined by the Branch are precluded from appeal procedures beyond the Minister of National Revenue. This represents an anomaly in the tax administration process, since disputes over other elements of the Branch's interpretations (such as classification of items under the laws) are subject to appeal through the courts or through an independent tribunal. This problem has been recognized for some time, and several reports (from government study groups, the Auditor General and the Public Accounts Committee) have called for changes in excise legislation to correct it.

15.182 In past years, the Branch carried out as many as 13 surveys annually to establish notional values, but in 1976-77, it conducted only one. The reduction occurred because the Branch had hoped that amending legislation would determine the need for the survey work. However, the Branch established another survey unit in 1977, and is conducting a significantly increased number of surveys.

15.183 The Branch intends that the unit carrying out these surveys will look for new circumstances and industries that require notional values. However, because the present unit was only established in 1977, it has not yet been able to do this. Instead, it has primarily assumed the role of reacting to taxpayer complaints. The Branch has not assessed the potential impact of conducting all the surveys which would appear warranted, in addition to those requested by taxpayers.

15.184 Despite periods of high survey activity, we were unable to find evidence of any documented guidelines for conducting surveys until 1978-79. At this time, the Branch established a new, two-man survey unit. The survey manual that the unit had developed up to the time of our audit provided comprehensive information on data collection processes for field personnel, but did not discuss either the way in which judgment should be exercised or the steps which would enable them to arrive at conclusions and make recommendations.

15.185 *The Branch should ensure that it establishes and documents comprehensive national survey practices.*

15.186 *The Branch should ensure that quality control reports are based on adequate criteria that permit an analysis of the reliability and consistency of rulings and interpretations across Canada.*

15.187 *The Branch should, according to the several studies which have been prepared and our previous recommendations, rigorously pursue the amendment of legislation to formally sanction its practice of establishing notional values for certain goods and ensure that a proper appeal process is available to all taxpayers.*

Banking and Accounting

15.188 The banking and accounting function is responsible for depositing monies and receiving and controlling remittances from licensees. Chapter 8 of our 1976 Report set out the results of our review of the Branch's controls in this area which was undertaken as part of a government-wide examination of controls over the receipt and deposit of public money. That study concluded that internal control was not adequate. Our current examination indicated that the Branch has improved its systems according to our recommendations.

Internal Audit

15.189 During our 1978 audit of customs revenue systems, we examined the mandate, organization, reporting, planning, staffing and operations of Internal Audit, which serves both the Customs and the Excise Branches. At that time we recommended a number of improvements. That audit focused on the structure of the internal audit unit, the audit planning carried out and the audit techniques employed.

15.190 Last year we reported that management had taken corrective action by establishing appropriate terms of reference, consolidating its organization, setting out clear lines of reporting and instituting a review process through an audit committee. We also reported that, until the Department significantly

improved its planning, staffing, conduct and reporting of internal audits of Customs activities, this Office could place only limited reliance on the internal audit work. Because of this, the nature, timing and extent of our audit work could not be altered to any significant degree.

15.191 It was therefore necessary to review Internal Audit for the current year to assess the extent to which we could rely on the audit of the Excise Branch's systems and operations. We also carried out a review to determine how Internal Audit is now meeting the challenges imposed by its comprehensive mandate.

15.192 During our current audit, we did not re-examine either Internal Audit's mandate, organization, or its lines of reporting, because neither of these had changed during the year and because we believe, as we reported in 1978, that they are appropriate. We did not review audits of the personnel function conducted by Internal Audit.

15.193 Internal Audit conducts two types of audits. Each is intended to provide coverage under its broad-scope mandate, which includes the audit of economy, efficiency and effectiveness.

15.194 One type of audit is intended to evaluate the adequacy of financial, operational and management controls for major systems, activities and functions throughout the Branch. The other type examines the financial and management controls in individual regions.

15.195 We noted that, over the last three years, Internal Audit, in accordance with its long-term audit plan, had completed only a few of the first type of audit, and that it had not completed audits of the two major regions that account for the bulk of excise revenue. Accordingly, we could not alter the scope, nature and timing of our audit to any significant extent.

15.196 However, we noted that Internal Audit's five-year plans, which have been further refined during the last year, do cover all important excise activities, systems and regions. We also noted that several of these audits were in progress, and that Internal Audit had a timetable for completing them. The sequence of audits appeared to reflect current audit needs in the Branch.

15.197 The extent to which we can rely on the work of Internal Audit depends not only on how many audits it does, but also upon how well it carries out these audits. As we indicated earlier, Internal Audit has been given a broad mandate to examine not only the adequacy of and compliance with financial controls, but also a mandate to review management control as it pertains to economy, efficiency and effectiveness. These areas are interrelated, and Internal Audit recognizes the need to conduct these kinds of "comprehensive audits".

15.198 Internal Audit has completed few functional audits. Accordingly, it recognizes that it will have to devote much more effort to developing the methodology necessary for auditing economy, efficiency and effectiveness. We did note that those parts of the audits which dealt with financial control had improved, as had the subsequent reporting of findings.

15.199 We examined Internal Audit's approach to planning, developing and using audit methodology, techniques and staff. This approach would determine the extent to which we would ultimately be able to rely on Internal Audit's work and how well it would be able to fulfil its mandate.

15.200 Improvement has occurred over the last year. The group has developed an audit manual, which should contribute to more effective auditing. It has done much work to lay the foundation for computer audit by documenting methodology, refining audit plans and by producing clearer, improved audit reports. Nevertheless, the Branch has made only limited use of, or has had limited experience with techniques such as computer-assisted audit aids and statistical sampling and analysis. These techniques are important to any systems-based approach.

15.201 Management control evaluation and the interrelationship between management and financial control still pose the largest challenge for the internal audit group. Management control evaluation embodies the methodology and approaches used both in conventional auditing, and in various management-science disciplines.

15.202 Other sections of this report have discussed the high degree of exposure of the Branch to both internal and external fraud on an organized basis. For example, fraud has been attempted in the gasoline tax refund system. In providing control over these areas, Internal Audit has played a role by assessing the adequacy of controls.

15.203 Internal Audit has evaluated various systems within the Branch, and has identified weaknesses which render these systems open to fraud or abuse. However, it has not played a strong enough role in monitoring the implementation and use of innovative and effective procedures by other departmental groups having the primary responsibility for detecting external (and possibly collusive) fraud. Further, Internal Audit has not conducted specific tests or procedures to determine whether internal fraud is occurring and, if it is, the potential extent of such fraud.

15.204 If Internal Audit is to fulfil its internal audit mandate successfully, it must take advantage of more current methodology, identify key areas of management control for audit, integrate this work with other audits, establish a methodology unique to the Department's needs where appropriate, and train or obtain appropriate staff to conduct this work. Internal Audit's success in these

endeavours will largely depend upon its using the skills of individuals who have expertise in various disciplines.

15.205 Staffing has been and still is a major concern in successfully accomplishing the above. For example, the Head of Programs position, responsible for many of the functions noted above, remained unfilled by a permanent staff member for some time. The Department has only recently been able to recruit a person to fill this position. Problems continue to exist in retaining experienced individuals. Several senior staff in the internal audit group have recently accepted positions in other government departments, and in so doing have made it more difficult for the Group to carry out its full mandate.

15.206 Because audits of management control areas were not yet sufficiently advanced, it was unclear as to whether the then existing number, mix and qualifications of staff were appropriate to fulfilling Internal Audit's mandate.

15.207 *The Department should increase its efforts to determine the disciplines required for auditing management control areas. The Department should determine whether or not the necessary staff are available within Internal Audit, and if not, it should obtain them.*

15.208 *The Internal Audit group should develop and execute specific economy, efficiency and effectiveness audit programs to fulfil its mandate.*

15.209 *The Internal Audit group should make greater use of computer-assisted audit aids and quantitative analysis methods in all phases of internal audit.*

15.210 *In its audit programs and procedures, Internal Audit should give greater emphasis to monitoring the control systems used by operational branches to provide adequate assurance that fraud and abuse of systems will be detected.*

Summary of Recommendations and Department's Comments

Recommendations

Department's Comments

PERFORMANCE AND ACCOUNTABILITY INFORMATION

Reporting of Performance Information to Parliament

15.64 The Branch should carry out analyses and tests to ascertain the most appropriate method of obtaining the information necessary to demonstrate the extent to which it is achieving its objective of collecting the correct excise duties and taxes. The Branch should report this type of information to Parliament.

The Department is examining the feasibility of developing forecasting techniques that will provide reliable data for comparison of taxes collected with taxes due under the law.

Excise Branch Performance Information

15.78 The Branch should ensure that managers have enough information about how varying the emphasis of different components of the audit correlates with changes in the efficiency and effectiveness of audits so that they can take prompt remedial action where warranted.

Agreed.

15.79 The Branch should augment its existing performance information by establishing procedures to measure the extent to which its audits achieve expected levels of reliability and consistency. In addition, the Branch should review its use of historical standards in its performance measurement system.

Agreed. The establishment of criteria for the evaluation of quality in greater detail than presently exists will be necessary before such measurement can be incorporated into the performance information system. A project is underway which is reviewing present standards as well as examining the possibility of developing new work standards.

Recommendations

Department's Comments

CONTROLS IN THE EXCISE REVENUE SYSTEM

Identifying Potential Taxpayers

- | | |
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| <p>15.87 The Branch should assess the extent to which the current practices that it uses for identifying taxpayers who either should be licensed or who should be paying tax, or both, actually accomplish this purpose. The Branch should either alter those practices, where appropriate, or pursue legislative changes if these are required.</p> | <p>Agreed. A study on this subject is underway.</p> |
| <p>15.88 The Branch should analyse the specific impact that its restricted access to taxpayers' records has had on the cost and effectiveness of enforcing licensing regulations, and should seek changes in its access provisions where appropriate.</p> | <p>Agreed. The impact will be analysed and appropriate recommendations for change will be made.</p> |

Taxpayer Audits

- | | |
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| <p>15.95 During its current review of the audit selection system, the Excise Branch should stress the establishment of measurement procedures by which to judge the system's effectiveness. It should also stress the identification of other factors which could be used to predict the need for auditing certain taxpayers. In addition, the Branch should establish further guidelines to ensure that selection procedures throughout the regions are consistent, that they meet the Branch's needs, and that regional staff understand what factors are taken into account by the computerized portion of the selection system.</p> | <p>Agreed. The Department will include these areas in its current review.</p> |
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<i>Recommendations</i>	<i>Department's Comments</i>
15.102 The Branch should develop criteria against which to assess the reliability and efficiency of new audit practices when they are being developed and ensure that such assessments are made.	Agreed.
15.108 The Branch should reassess the type and degree of written guidance which should be provided to field staff to ensure that they have the appropriate information for reference purposes.	Agreed.
15.115 The Branch should shift the emphasis of the supervisory function from the performance of administrative duties to involvement in the professional aspects of taxpayer audits.	Agreed. Preliminary work was done to this end; however more emphasis is still required.
15.116 The Branch should hold supervisors accountable for the contents of audit files and for the quality of work done by field staff by monitoring the involvement of supervisors in all aspects of taxpayer audits and by ensuring that this involvement forms a critical part of appraisals done on supervisors.	Agreed.
15.123 The Branch should establish benchmarks on which to base its quality control reviews and should develop reporting systems commensurate with the importance of this function. Quality control results should be formally incorporated in performance information reports.	Agreed. Benchmarks established in the past have been found to be insufficiently detailed. Reporting systems are being developed.

Recommendations

Department's Comments

Refunding Activities

15.136 The Branch should assess the effectiveness of its audit procedures related to refund claims at the same time as it assesses those related to regular taxpayer audits. The Branch should ensure that it consistently applies and interprets its procedures throughout Canada. For the gasoline tax refund system, the Branch should:

Agreed.

- install an operating agreement as quickly as possible to delineate an appropriate division of responsibilities between the Excise Branch and the Department of National Revenue - Taxation; and

Agreed. Discussions of a draft agreement are presently in progress with Taxation.

- re-examine the efficiency and effectiveness of controls in the system to make them consistent with the high exposure associated with it.

Agreed. A thorough review of the entire internal control system has been undertaken with implementation or improvement of necessary controls now being phased in.

Collection

15.140 The Branch should ensure that it provides guidance to regions in setting priorities for collection and should ensure that these priorities are adhered to.

Agreed. This matter will be reviewed through our monitoring process and the necessary guidelines will be developed in accordance with the recommendations received.

Recommendations

Department's Comments

PAYROLL COSTS MANAGEMENT

Manpower Planning

15.149 The Department should continue its efforts to improve its manpower planning process by:

- ensuring through a challenge process that work plans are complete;
- identifying skill gaps for individuals and groups and by determining career paths to ensure that the Department meets its needs for staff;
- linking manpower planning with operational and financial planning; and
- ensuring that manpower requirements are based on complete and reliable performance information.

Agreed.

Agreed. Plans call for the ongoing review of Branches' current and projected work force situations, specific population studies and determination of the human resource impacts of program and legislative changes. This information will be input to the work force planning process as the principal means of identifying individual and group skill gaps. Initial work is underway to articulate career paths to facilitate career decision-making and staff development within a framework of organizational needs.

Agreed. Work force planning guidelines will be included in the 1979 Departmental Planning Directive to assist Branches in identifying and planning for their work force requirements as an integral element of operational and financial planning for Fiscal Year 1980-81.

Agreed. The development of performance measurement systems will continue to receive high priority and a measure of their success will be the degree to which they assist the human resources planning process.

Recommendations

Department's Comments

Training and Development

15.154 The Department should examine the extent to which the performance appraisal system reliably identifies individual training needs to ensure that the Department derives maximum benefit from its training programs.

Agreed. Individual training needs, identified through the performance assessment system, are consolidated by Branches for regional and headquarters needs, and are integrated into the respective Branch Training and Development Plans. Use of performance assessments to identify individual training needs is an element of the present review of the performance assessment system.

15.161 The Department should ensure that its reporting system for training provides for analyses of variances.

Agreed. A system of quarterly reports, supplemented by other regular reports to the Management Committee, will focus on variance analysis.

15.162 The Department should review and improve its methods for evaluating the effectiveness of training.

Agreed. Managers and the Customs and Excise College are continuously reviewing and analysing training needs in terms of training being the suitable option which can contribute to the solution of operational problems. Simplified evaluation tools are currently being designed and these should reduce the load on reporting managers.

Human Resource Information Systems

15.172 In its current review of management information systems, the Department should emphasize the importance of eliminating duplicate systems and of ensuring that centrally-operated systems meet regional needs.

Agreed. The Department will continue to emphasize the elimination of duplicated systems and will ensure that when systems are developed they are developed in an integrated manner.

Recommendations

Department's Comments

TAX ADMINISTRATION ACTIVITIES

Equalization Practices

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| 15.185 The Branch should ensure that it establishes and documents comprehensive national survey practices. | Agreed. The Department will review these practices to ensure that they are well established and documented. |
| 15.186 The Branch should ensure that quality control reports are based on adequate criteria that permit an analysis of the reliability and consistency of rulings and interpretations across Canada. | Agreed. The Department will ensure that adequate criteria are established for quality control purposes. |
| 15.187 The Branch should, according to the several studies which have been prepared and our previous recommendations, rigorously pursue the amendment of legislation to formally sanction its practice of establishing notional values for certain goods and ensure that a proper appeal process is available to all taxpayers. | Agreed. The Department will continue within its authority to pursue legislative changes to sanction its system of calculating values for sales tax purposes and to provide for a proper appeal process. |

INTERNAL AUDIT

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| 15.207 The Department should increase its efforts to determine the disciplines required for auditing management control areas. The Department should determine whether or not the necessary staff are available within Internal Audit, and if not, it should obtain them. | The Department will continue its efforts to determine the appropriate disciplines necessary for effective discharge of the internal audit mandate and take appropriate resourcing action. |
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Recommendations

Department's Comments

15.208 The Internal Audit group should develop and execute specific economy, efficiency and effectiveness audit programs to fulfil its mandate.

We will continue in accordance with our existing plan, to develop audit programs which will include matters of economy, efficiency and effectiveness.

15.209 The Internal Audit group should make greater use of computer-assisted audit aids and quantitative analysis methods in all phases of internal audit.

Appropriate applications for EDP and quantitative analysis methods, will be identified in line with our existing plans, to improve the audit effort.

15.210 In its audit programs and procedures, Internal Audit should give greater emphasis to monitoring the control systems used by operational branches to provide adequate assurance that fraud and abuse of systems will be detected.

We will continue in our development of programs and procedures, emphasizing the need for control systems used by operational branches to provide adequate assurance that fraud and abuse will be detected.

DEPARTMENT OF PUBLIC WORKS

DEPARTMENT OF PUBLIC WORKS

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DEPARTMENT OF PUBLIC WORKS

SUMMARY OF FINDINGS, OBSERVATIONS AND RECOMMENDATIONS

Introduction

16.1 This Chapter contains the principal findings and recommendations resulting from our comprehensive audit of the Department of Public Works (DPW).

16.2 The Department provides accommodation and related realty services to government departments and agencies, although certain departments and agencies provide for some of their own accommodation. These services include construction of buildings, purchase and disposal of land and other real property, rental of premises, and the maintenance, improvement and operation of properties owned or leased by the Government of Canada. In addition, on request, the Department supplies government departments and agencies with technical and construction management services for capital projects. The Department is also responsible for providing marine facilities and roads, bridges and public utilities as required by other federal government programs.

16.3 In carrying out our audit we used a systems approach which consisted of documenting and assessing the Department's reporting and control systems. The objective of this approach was to help us to obtain a better understanding of the Department's operations and to determine whether the systems were operating effectively. We then used the information obtained during the systems evaluation in examining several projects.

16.4 Throughout the audit, we placed emphasis on determining whether the Department was approaching its responsibilities and conducting its activities with due regard to economy and efficiency, and whether satisfactory procedures had been established to measure and report the effectiveness of programs. We focused on the systems used by management to control the operation of the Department's activities and to evaluate economy, efficiency and effectiveness. We gave particular attention to the interaction of these systems.

The Department

Objectives

16.5 The Department of Public Works has six programs. The objectives of these programs, as they appear in the Estimates, are outlined below.

	Estimates 1978-79 (in \$000's)	Authorized Person-Years
Administration (one vote and two statutory items)		
To provide central policy direction and central administrative support services for all departmental programs	35,621	1,396
Professional and Technical Services (one vote and one statutory item)		
To provide the professional and technical services necessary to support programs of the Department of Public Works and other departments and agencies in the fields of construction and fire prevention	42,536	1,234
Accommodation (two votes and one statutory item)		
To provide departments and agencies of the federal government with accommodation of approved standards of quantity, quality and efficiency at the most economical cost	709,471	6,043
Marine (two votes and two statutory items)		
To provide and maintain at the most economical cost marine facilities as required by federal programs for the development and support of industry and for water level control	57,479	505
Transportation and Other Engineering (two votes and one statutory item)		
To provide and maintain at the most economical cost roads, bridges and public utility services as required by federal government programs	38,846	91

Estimates 1978-79 (in \$000's)	Authorized Person-Years
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Land Management and Development (two votes and one statutory item)

To manage and develop federal lands so as to combine the efficient provision of government services with the achievement of wider social, economic and environmental objectives

16,112	194
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<u>900,065</u>	<u>9,463</u>
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In addition to the above, DPW was provided with approximately \$260 million by other government departments. Five hundred and four person-years were also chargeable to other departments.

Organization

16.6 A summary chart of the Department's plan of organization is presented in Exhibit 16.1. The Department is divided into six regions in addition to headquarters. Each region, with functional direction from headquarters, is organized to provide professional and technical services as well as accommodation and related realty services. Each region has responsibility for all programs, but program distinctions do not dictate organizational structure.

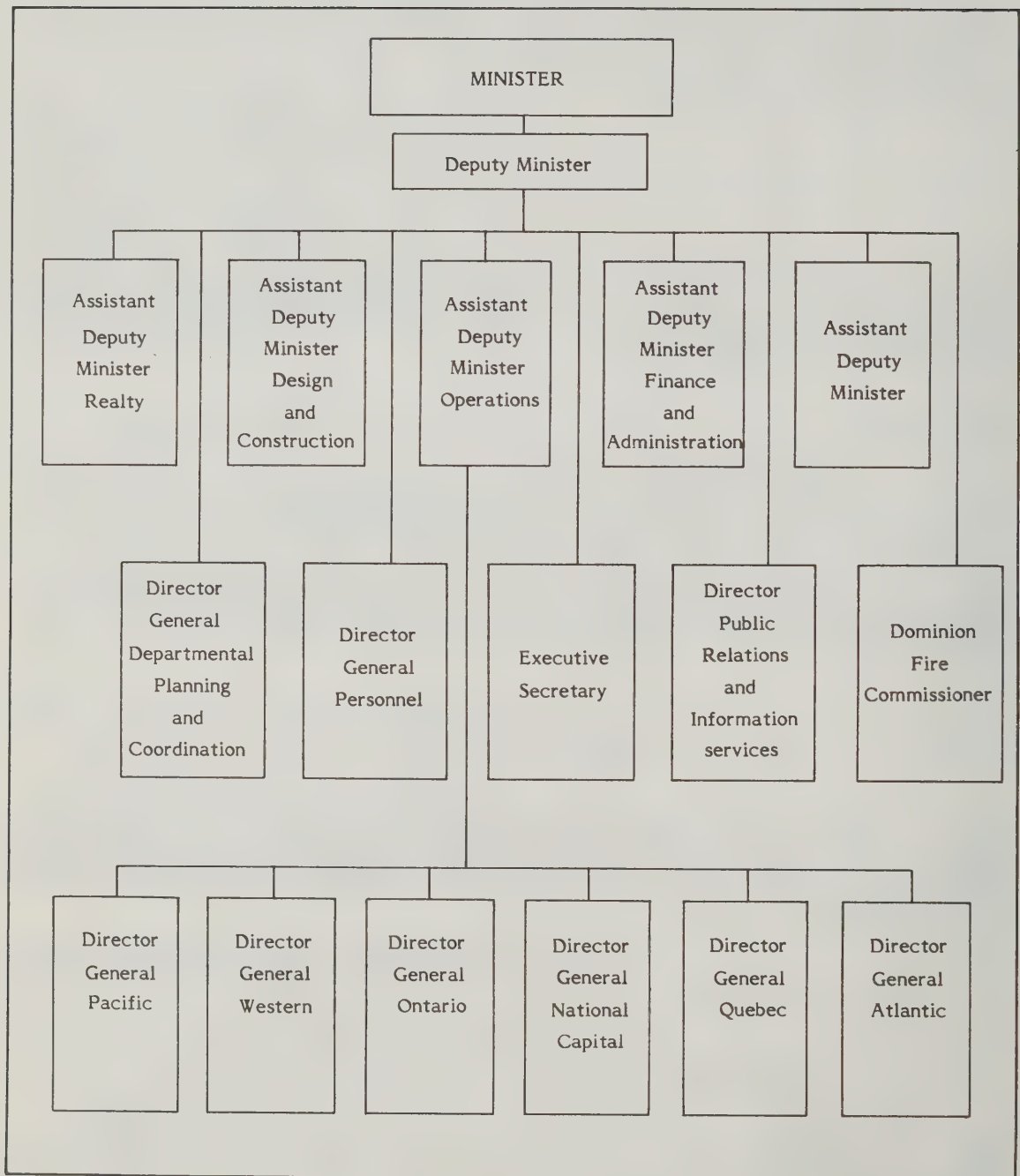
Scope of the Audit

16.7 We based our comprehensive audit on an examination of the departmental systems in place and their interaction. We used this approach to obtain more knowledge and a better understanding of the Department's planning, control and reporting systems and to:

- identify the principal roles and relationships within the Department; and
- identify and evaluate its management planning, control and reporting systems.

16.8 After documenting and assessing these systems, we used the information obtained during the systems evaluation in examining several capital projects in detail.

**DEPARTMENT OF PUBLIC WORKS
SUMMARY ORGANIZATION CHART**



16.9 The objectives of these project audits were to:

- verify that the systems and processes operated as planned;
- assess the significance of systems deficiencies; and
- illustrate the impact of serious deficiencies.

Systems Audits

16.10 A brief description of the systems audits that we carried out is set out in the paragraphs that follow.

16.11 Departmental role and objectives. In order to identify and obtain a clear idea of what the role of the Department is, we asked the following questions:

- How does the Department see its role?
- Where and how are departmental objectives defined?
- Are objectives defined to the extent that effectiveness measures can be based on them?

16.12 Operational planning. As part of our study of the objectives and the operational planning of the Department, we reviewed the Estimates in terms of their usefulness to Parliament as a basis for authorizing the Department's expenditures for the coming year. We asked:

- Does an operational plan exist and are the Estimates based on the operational plan?
- Is the information presented in the Estimates in the most appropriate form for Parliament to use in authorizing proposed expenditures?

16.13 The audit of operational planning was done on both a central and a regional basis. We examined the methods and procedures the Department used to arrive at its estimated expenditures. Questions asked included:

- Are operational plans based on client needs?
- How are priorities determined?

- Are future implications of assumptions and plans clearly analysed and documented?
- Is supporting information available, reliable and used properly?
- Have the implications of possible changes in areas such as economic conditions or government priorities been analysed, and have alternative plans been prepared where appropriate?

16.14 Operational control. We examined the Department's operational control systems on a central and regional basis. Our audit sought answers to the following questions:

- How well do control systems support operating decisions on the acquisition and use of resources, budgeting and financial management, and the achievement of departmental objectives?
- Are there operational standards in effect?
- Are there adequate performance reports integrated with the control system?

16.15 Payroll costs management. Our audit of payroll costs management was designed to determine the adequacy of management controls over manpower planning, training and development, and human resource information systems, and the extent to which these processes were integrated with the operational planning and the budgetary processes in order to meet the needs of management.

16.16 Internal audit. We reviewed the Department's Management Audit group to determine whether we could place sufficient reliance on its work to materially affect the extent of our audit.

16.17 Electronic data processing. In our review of electronic data processing (EDP), we determined that most of the reports produced were not used by operating managers for control and evaluation purposes. Because EDP did not play an important role in management controls, we did not examine the organization and control of electronic data processing in the Department. The need for improved management reports was examined in connection with our audit of operational planning.

Capital Project Audits

16.18 The second stage of our audit involved specific project audits to substantiate and illustrate the observations made during the systems audit and to measure the effects of systems weaknesses.

16.19 The following major general purpose capital projects were selected:

- 240 Sparks Street (C.D. Howe Building): this downtown Ottawa project was recently completed and represented a "new" method of acquisition for the Department.
- Place du Portage Phases I, II, III: this complex of buildings in Hull was selected because it was developed in several phases. Phase I was completed in 1972 and Phase III has recently been finished. Therefore, we expected to find that operating experience gained from earlier phases had been used to assess the validity of the original projections and to develop design economies in later phases.
- Guy Favreau Complex: this Montreal project was selected because it is in the last phase of the planning stage and the concept of the project has been considerably altered since its initiation.
- Government of Canada Building - North York: the building was selected as an example of a medium-sized project outside the National Capital Region planned to consolidate the space needs of several government departments.
- Government of Canada Building - Barrie: an example of a small project outside the National Capital Region.
- Government of Canada Building - Calgary: a medium-sized project in another region.
- Renovation - Guysborough, Nova Scotia: an example of a renovation project outside the National Capital Region.

16.20 In addition, specific projects in Marine, and Transportation and Other Engineering Programs were reviewed.

Summary of Audit Observations

16.21 Our examination of the Department of Public Works centred on those systems used by management to plan, evaluate, control and report the activities of the Department in providing accommodation and other services to Government.

16.22 We noted that, while the provision of accommodation is the Department's primary objective as set out in the Estimates, projects have been undertaken to satisfy other requirements. The Department informed us that these additional requirements were imposed by government policy.

16.23 We found that many of the systems in place in the Department were soundly conceived. These systems, however, need to be integrated and linked to a reliable data base so that, with some further development, they could form the nucleus of an overall control and evaluation process.

16.24 The most significant deficiencies that existed were:

- The Department did not have a reliable operational planning process because it had not developed comprehensive operating standards for converting accommodation and other client needs into resource requirements.
- Because there was no reliable operational plan, the budget was not based on the resources required to meet the needs of clients.
- The payroll costs management system was not co-ordinated with the operational needs of the Department.
- The accounting system was used primarily to control cash flows within appropriations. There was no cost accounting system that provided data for investment analysis, life-cycle cost analysis, monitoring and control, assessment of efficiency, or measurement of performance.

16.25 It is important to note that, if improvements are to be realized, the Department will require a carefully planned, comprehensive program to effect the necessary changes. The Department had recognized the deficiencies cited in this Report and was in the process of designing action plans to eliminate them.

16.26 Each area examined during our audit was treated at length in a series of reports given to the Department. Our major findings follow.

Departmental Role and Objectives

16.27 As set out in the Estimates, the Department of Public Works has primarily a service role, except in the area of Land Management and Development. The Land Management and Development Program objective and other objectives have served to support requests for additional funding. The Department has described these other objectives as requirements imposed by government policy or accepted practice. Such objectives have appeared in the Department's internal documentation and in submissions to Treasury Board and to a variety of commissions and task forces, including the Standing Senate Committee on National Finance.

16.28 These documents refer to such matters as the need for appropriate portrayal of federal image, urban renewal, stabilization of local real estate and

construction industries, regional economic stimulation, heritage policy, and promotion of national unity. All these objectives are classified by the Department as either falling under the Land Management and Development Program or responding to requirements enunciated in Cabinet documents and other government program documents. Our review of nine capital accommodation projects indicated that these objectives have not been defined as precisely as possible. For example, a submission to Treasury Board requesting funding for 240 Sparks Street listed "federal presence" as a requirement which the building would meet. However, there was no definition of the phrase or an identification of the specific costs to be attributed to "federal presence".

16.29 This lack of clarity and precision results in information being submitted to Parliament that may be incomplete and may not disclose fully the range of results which are expected to be achieved through the use of the funds being appropriated. For example, the Estimates state that the objective of the Accommodation Program is to provide departments and agencies of the federal government with accommodation. Thus, it is unlikely that parliamentarians would realize that some of the funds appropriated for this purpose would be used, not for government accommodation, but for such things as the ownership of the land for Rideau Centre, a commercial development proposed for Rideau Street in Ottawa.

16.30 The Department has also used Accommodation Program funds for objectives other than providing accommodation for Government in administering Goose Bay, Labrador, a community which includes various commercial and residential facilities. There is no federal accommodation provided except for approximately 100 Canadian forces members and some 400 employees of other government departments. Four hundred DPW employees operate the facilities. The administration costs of this community would be more properly charged to the Land Management and Development Program.

16.31 Our review of the Marine Program found that DPW's responsibilities for marine facilities conflicted with the roles of other departments responsible for planning, acquiring and operating harbour, wharf and other marine facilities. The Department has responsibility for funding the acquisition and maintenance of such facilities. However, other departments, including the Departments of Transport and Regional Economic Expansion, have the responsibility for macro-transportation planning.

16.32 Through the capital and operating expenditure votes, the Transportation and Other Engineering Program has the role of initiating, justifying, funding and managing the Northwest Highway System (the Alaska and Haines Highways), the Trans-Canada Highway through national parks and some inter-provincial and international bridges.

16.33 Senior managers in the Department have recognized the need to clarify its role in both the marine and transportation areas and they believe that

the Department should not have funding responsibility for either the Marine or the Transportation and Other Engineering Programs.

16.34 In summary, we found that:

- A clear role and objectives are stated in the Estimates and have been sanctioned by Parliament through its approval of funds for these purposes; however, the Department has not been restricted to this role and to these objectives.
- The Department has used objectives and sub-objectives in Treasury Board submissions other than those set out in legislation or the Estimates. Accordingly, Parliament has not been fully informed of the complete range of results expected to be achieved through the use of funds being appropriated.
- In the Marine Program and the Transportation and Other Engineering Program, DPW has a funding program role inconsistent with internal concepts of the Department's role. This inconsistency confuses its role with that of other federal agencies.

16.35 *The role of the Department of Public Works and its program objectives should be clarified, approved by central agencies, and then communicated to all department managers to ensure that the departmental activities for which they are responsible are directed toward fulfilling this role and achieving these objectives.*

Operational Planning

16.36 We examined in detail the budgetary process used by the Department in the 1978-79 budget cycle. In the following discussion of the budgetary process, planning and control are treated separately.

16.37 The major operational areas of the Department that we examined in connection with our review of operational planning are as follows:

- accommodation -- the acquisition of space;
- accommodation -- operations and maintenance;
- marine; and
- transportation.

Accommodation - The Acquisition of Space

16.38 The objective of the Accommodation Program, as set out in the Estimates, states, in part, that the Department of Public Works should provide accommodation "of approved standards of quantity, quality and efficiency at the most economical cost". The key factors in accommodation demand are the creation of departments, their size, organization, program changes and location of operating units. The Department of Public Works does not influence these factors, has not been in a position to predict them, and thus may be handicapped in planning its activities.

16.39 We examined each major specification in the Estimates -- quantity, quality, efficiency and economy -- to determine whether the systems the Department used in planning the acquisition of space were adequate to meet the stated objective. We found that the Planning and Control System and the Project Delivery System were capable of contributing to the elements of quantity, efficiency and economy; however, we found no indication that the specification for approved standards of quality had been determined.

16.40 The Department uses two principal systems in planning for the acquisition of space. The Planning and Control System is used to plan the Department's internal resource requirements based on expected project workload. The Project Delivery System is used in its earlier stages for detailed planning and justification of capital acquisition projects. Later stages are used for actual delivery, operation and post-evaluation.

16.41 **The Planning and Control System.** To assist in preparing forecasts of space to be acquired and resources needed, the Department began in 1973 to develop an integrated, computerized Planning and Control (PAC) System. The system was planned as a tool to assist in preparing program forecasts and in providing the information necessary to measure and control operations.

16.42 In order to be fully effective as a foundation for departmental planning and forecasting, the PAC System must be linked to an extensive data base of cost, inventory and other operating data. This data base has not yet been fully developed. As a result, we found that the input data were unreliable, consisting mostly of global averages taken from previous years' projections. Accuracy was not systematically verified.

16.43 Our analysis of the 1978-79 budget cycle revealed inadequate planning for acquiring and disposing of space. The system for assessing demand for space based on historical growth trends in the Public Service may result in significant expenditures to provide accommodation substantially in excess of real need. For example, following its review of the 1978-79 Program Forecast, the Treasury Board observed that:

"Growth of general purpose accommodation (mostly office) will exceed the growth in public service population by substantial amounts in the period 1976-77 to 1980-81. The excess is due to the large construction and lease purchase program launched in response to the high growth rates in the public service during the early to mid 1970's. The situation will correct itself in the National Capital by 1980-81 through the return of about 4 million square feet of leased space to the private sector. Outside the National Capital, the volume of office space will stabilize by 1979-80 but at a level much higher than would appear to be justified by overall growth of the public service. The amount of leased space in the regions will decline but this decline is more than offset by growth of Crown-owned accommodation even larger than in the National Capital.

The department is taking every possible step, short of purchasing unexpired leases, to reduce its inventory of leased accommodation. Nevertheless, expenditures of about \$10M annually in 1978-79 and 1979-80 will be incurred on accommodation which is not required. This estimate does not include the costs of moving departments so as to consolidate their space and permit terminating leases which will expire over the next four years. There would appear to be no less costly alternative since purchasing unexpired leases would be as expensive."

16.44 Actual expenditures were not being systematically compared to plans or budgets to determine the quality of the original plans, nor could changes in the level of funding be related to changes in resources required for individual projects.

16.45 The Department has not completely conformed to the requirements of Treasury Board directives on the acquisition of capital assets. For example, requirements for capital projects, as initially presented to Treasury Board for approval, did not give the implications in terms of requirements for additional staff, additional operating and maintenance costs, and for other capital expenditures that may arise out of the project.

16.46 *The Department of Public Works should complete the development and implementation of a planning and control system including:*

- *development of the data base of cost, inventory, operating and other data necessary to the operation of the system and development of the programs needed to link the system to the data base; and*
- *development of standards for data quality and for operation of the system consistent with Treasury Board directives on planning capital acquisitions.*

16.47 The Project Delivery System. To assist in planning capital acquisition projects, the Department is developing a Project Delivery System which consists of 10 stages:

- | | |
|---------------------------------------|--------------------------|
| 1. Problem/Opportunity Identification | 6. Tendering/Procurement |
| 2. Feasibility | 7. Construction |
| 3. Project Definition | 8. Commissioning |
| 4. Design | 9. Operating/Maintenance |
| 5. Working Documents | 10. Post-evaluation |

The first four stages cover the planning and design process for capital acquisition projects, and have been documented and used on some projects. Documentation regarding the last six stages is under development, with the tenth, post-evaluation, due to be published shortly. The system provides for an ordered sequence of planning activities, a set of specific output documents for planning and approval purposes and a co-ordinated approval process.

16.48 In concept and in sub-systems this system is adequate; however, full benefit cannot be derived from the system without accurate and relevant cost data. In addition, although the Department has an excellent Real Estate Investment Analysis Model (REIAS), we found that it lacked a reliable investment analysis process because data input was unreliable.

16.49 We were told by the Department that the decision to carry out most of the capital projects examined was made as a result of government policy or directive. In terms of costs alone, more economical options than the one selected were available to the Department in five of the nine projects we reviewed. Three projects were not subjected to an option definition and analysis process at all.

16.50 As a result, occupancy costs for many of the projects studied were considerably higher than comparable private sector costs at the time the decision was made to build. We calculated equivalent rental rates for each of the nine projects. These rates were based on full costs and represented the rental that the Department would have to charge to recover costs if it were operating on a revenue-dependent basis. We concluded that three of the nine projects (North York, Barrie and Guysborough) showed rental rates consistent with prevailing market rental rates. One project (Guy Favreau Complex) was excluded from our analysis because it was under construction.

16.51 The remaining five projects (Place du Portage, Phases I, II and III, C.D. Howe Building and Government of Canada Building, Calgary) showed rental rates that were not consistent with prevailing market rates at the time decisions were taken to build.

16.52 We concluded that, measured against the capital acquisition criteria developed by the Study of Procedures in Cost Effectiveness as set out in Chapter 3 of our 1978 Report, the management of eight of the nine projects examined did not demonstrate a reasonable standard of due regard for economy.

16.53 *The Department of Public Works should develop standards for data completeness and accuracy for the Project Delivery System and should ensure that these standards are adhered to and the system is used in planning all capital acquisition projects.*

16.54 **Quality.** Even though quality is specified as one of the major elements in the objectives of the Accommodation Program, the Department had not yet established standards on levels of quality for general purpose accommodation. There were no guidelines for use in the Project Delivery System, nor was a level of quality specified. These guidelines and standards are crucial to establishing appropriate building quality and to recognizing and assessing the financial implications of different quality levels for federal government buildings.

16.55 *The Department of Public Works should develop guidelines and standards of quality for use in planning federal buildings.*

Accommodation - Operations and Maintenance

16.56 Resource requirements for operating and maintaining buildings were not based on reasonably precise cost factors and performance standards, although the activity is one which lends itself to such analysis. Planning in this area suffers from major weaknesses because:

- budget forecasts were based on global statistics which were unreliable since they brought together completely disparate types of buildings into a portfolio where the mix changes with time;
- the input information used for the Program Forecast and Estimates was not based on an analysis of actual costs compared to budgets on a building-by-building basis; and
- given of the limited performance standards in use, the Department was unable to assess fully the efficiency of its building operations, a vital element in its planning and control processes.

16.57 **Unit costs.** In 1978, a "Unit Cost" study was undertaken in support of a proposed Performance Measurement System for the Property Administration Branch. Unit costs were computed for a small number of buildings. The number was kept small partly because, in the absence of a cost accounting system,

relevant, accurate cost data were not available and had to be manually produced to test the system. In current practice, forecasts of resource requirements for building maintenance are based on the region's average costs (the preceding year's budgeted cost plus inflation) rather than on the aggregation of detailed budgets for individual buildings compiled in the light of actual cost experience. The incorrect use of historical patterns is a significant weakness. For example:

- A non-recurring item of \$1 million that was no longer needed was included in the Program Forecast and subsequently eliminated by Treasury Board.
- Primarily because of difficulties in forecasting accommodation needs and resultant workload levels, as well as imprecise unit rates, used in the Planning and Control models, the Main Estimates approved for 1977-78 exceeded by \$68 million the Department's requirements in the Accommodation Program. This excess was adjusted by crediting \$45 million against "price increases" which DPW stated it could have justified in the Supplementary Estimates. The remaining \$23 million was transferred to other votes with the approval of Parliament.
- For the 1978-79 Program Forecast and Main Estimates, the Department again used the incorrect rates from the previous year rather than rates based on analysis. As a result, the Department believed that it had received approximately \$28 million more than it needed to meet its actual operating requirements in the Accommodation Program.

16.58 In summary, no significant analysis was performed to measure the variance among regions, variance among similar buildings within a region, or departmental performance against private sector performance. Although standards existed for some operations, such as cleaning, they had not been developed comprehensively to support operating budgets for individual buildings. As a result of this situation, the Department had no reliable means of ensuring that possible past inefficiencies were not being carried forward from year to year.

16.59 *The Department of Public Works should develop unit costs for each building to form the basis for resource requirement planning for the operation and maintenance of buildings.*

Marine

16.60 The Estimates state that the Marine Program's objective is "to provide and maintain at the most economical cost marine facilities as required by federal programs for the development and support of industry and for water level control". In the Program we found that:

- although the Marine Program initiates projects designed to provide support to selected industries, the Department was relying on analyses by the Department of Transport rather than carrying out its own economic analyses; and
- the project ranking system in use was based on subjective factors rather than on explicit criteria or economic analysis of need.

Transportation

16.61 Planning in the Transportation and Other Engineering Program has been based primarily on the anticipated availability of funds rather than on an operational plan that specified goals and activities in the light of known needs. It should be noted that approximately 75 per cent of expenditures in 1978-79 in the Land Transportation Program were made on the Alaska Highway Project.

16.62 **Alaska Highway Project.** In 1973, the Treasury Board authorized a request from the Department to reconstruct and pave 225 miles of the Alaska Highway at a cost of \$43 million. On the basis of this authorization, approximately 150 miles were reconstructed, of which 89 miles were paved. The total cost of this work was \$50.2 million during the five years ended March 31, 1978.

16.63 On October 12, 1977, the Project Review Committee of the Department supported a proposal from the Transportation and Other Engineering Program for the reconstruction and paving of the remaining portions of the Alaska Highway between mile 93 and mile 1016, at a total estimated cost of \$450 million over 20 years. On the basis of the Committee's support, the Department sought and obtained authorization from the Treasury Board on April 21, 1978 to spend \$65 million on the reconstruction and paving of certain sections of the road and the replacement of bridges on the Highway during the five-year period from 1979 to 1984, with reassessment of the project to take place in 1982.

16.64 Our audit showed that the 1973 submission to the Treasury Board did not disclose significant findings arising from two detailed and comprehensive cost-benefit studies which had been conducted by consulting firms in 1966 and 1970. Both analyses found that costs exceeded benefits for reconstruction and paving of the Alaska Highway; only one of the two studies suggested that it would be economical to do so on certain sections of the highway. Further, the 1978 submission to the Treasury Board did not include an adequate cost-benefit study, nor did it update the data included in the two studies that had been conducted previously.

16.65 Neither submission to the Treasury Board was supported by an assessment of possible transportation alternatives. For example, there was no comparison made of the costs and benefits of road transportation on the Alaska Highway with those of air, ship, rail or, perhaps most important in this case,

alternative road networks. The 1978 submission did not include an assessment of the effect that competing transportation networks could have on the use of the Alaska Highway. An example is the Province of British Columbia's Stewart-Cassiar Highway, intended to give paved access to the Yukon from Prince Rupert. The initial stages of this highway were built with the assistance of federal funds, provided under a shared-cost agreement with the Departments of Transport and Regional Economic Expansion.

16.66 The 1978 Treasury Board submission did not disclose the total 20-year life-cycle maintenance costs of the project.

16.67 The 1978-79 Estimates disclosed only that the "Currently Estimated Total Cost" of the Northwest Highway System in British Columbia and the Yukon was approximately \$145 million.

16.68 *The Department should ensure that the Alaska Highway Project is re-evaluated immediately on the basis of a proper analysis of needs and benefits and an adequate assessment of alternatives and costs.*

Control and Reporting

Accommodation - The Acquisition of Space

16.69 Control over the acquisition program was inadequate because of the weaknesses in the budget preparation process and because:

- the sub-division of funds among votes under which the department is required to function and, internally, among allotments and sub-allotments, makes an understanding of total costs difficult;
- the allotment structure did not correspond to the activity structure presented in the Estimates or to the delegation of managerial responsibility for the management of the program;
- reporting systems were numerous and incomplete and, although all were based on the same data, there was no integrated approach;
- cost data were incomplete because expenditures for professional and technical staff engaged in design and construction supervision activities were not included in the costs of the projects, in spite of the detailed time-reporting system maintained by the Design and Construction Branch; and

- budgetary reports were used to exercise control over cash flows to prevent over-spending of funds. The reports did not compare actual to budgeted expenditures with explanations of variances related to performance.

16.70 Cost increases. We noted cost increases for each capital project that we examined. Exhibit 16.2 documents the initial budget for each project compared to the completed project cost. The exhibit indicates an average final cost increase of 99 per cent from the initial budget submitted to the Treasury Board for project approval. Approximately 32 per cent of this increase is attributable to our inclusion of certain items not required to be disclosed in the Treasury Board submissions, such as interim interest and grants in lieu of taxes. The Department calculates that an average 40 per cent of the total increase can be attributed to inflation. The remaining 27 per cent represents the average growth in each project's budget to cover such items as scope changes, increased project costs and fees, land costs, change orders, fit-up costs and so on.

16.71 Disclosure. We found no case where full disclosure of the total estimated costs was made to Parliament or the Treasury Board at the beginning of any project. Costs borne by government bodies other than DPW that were involved in projects in a limited or specific way were not disclosed. As an example, departmental submissions to the Treasury Board for the Place du Portage complex did not mention approximately \$60 million required for the extensive infrastructure (parking structures, roadwork, bus stop structure, park, bridge, trunk and lateral sewers and watermain) necessary to handle the large population shift. All these costs were funded by the Department of Public Works, the National Capital Commission and other federal government departments.

16.72 Project cost escalation. We found that budgetary control on projects was deficient. On Phase III of the Place du Portage project, Treasury Board approved in November 1974 an increase of \$45 million to the estimate at that time of \$53.5 million for additional costs incurred as a result of project scope changes, project delays and inflation. The inflation figure submitted by the Department allowed for inflation of 30 per cent per annum to projected date of completion in May 1976. The actual inflation rate calculated by the Department for that period was lower and thus should have contributed to an unexpended surplus of approximately \$14 million in the project budget. A review of current costs on the project indicate, however, that most of this surplus will be required to cover additional project extras.

16.73 Post-evaluation. The last stage of the Project Delivery System, post-evaluation, provides for performance measurement. The basis of the evaluation is a comparison of:

- actual to planned performance;
- actual to average performance; and

DEPARTMENT OF PUBLIC WORKS
COST ANALYSIS OF SELECTED CAPITAL PROJECTS

<u>Accommodation program</u>	<u>Initial TB Ap- proval Project Costs</u>	<u>Inflation (1)</u>	<u>In- creased Costs (2)</u>	<u>Sub- Total</u>	<u>Per- centage In- crease</u>	<u>Costs not Re- quired by TB to be dis- closed (3)</u>	<u>Final Pro- ject Costs</u>	<u>Per- centage In- crease</u>
(millions of dollars)								
Hull - Place du Portage - Phase I	14.1	4.3	1.3	19.7	40	5.0	24.7	75
Hull - Place du Portage - Phase II	14.6	3.3	1.7	19.6	34	2.8	22.4	53
Hull - Place du Portage - Phase III	44.9	21.5	27.6	94.0	109	19.7	113.7	153
Ottawa - 240 Sparks	57.0	22.6	10.7	90.3	58	12.7	103.0	80
North York - Government of Canada Building	23.8	8.1	3.0	34.9	47	6.3	41.2	73
Calgary - Government of Canada Building	21.4	10.9	4.0	36.3	70	9.5	45.8	114
Barrie - Government of Canada Building	1.5	0.6	(-0.2)	1.9	27	0.2	2.1	40
	<u>177.3</u>	<u>71.3</u>	<u>48.1</u>	<u>296.7</u>	<u>67%</u>	<u>56.2</u>	<u>352.9</u>	<u>99%</u>

(1) Based upon the Department's calculations.

(2) Scope changes, increased project costs and fees, land costs, change orders etc.

(3) Interim financing during construction, grants in lieu of taxes, tenant fit-ups, etc.

- actual performance to evaluation standards.

16.74 We found no evidence that post-evaluation was carried out for any of the projects we examined. It is the stated intention of the Department to begin such evaluations in the near future.

16.75 We were informed by the Department that the system was difficult to use at present because the data required for post-evaluation were not readily available. No project averages or evaluation standards existed. The setting of these norms is a critical element in the performance evaluation process.

16.76 *The Department of Public Works should develop standards for use in the control and evaluation processes for all its capital acquisition projects.*

Accommodation - Operations and Maintenance

16.77 DPW's budgetary controls over operations and maintenance were inadequate because of the weaknesses in the preparation of operating and maintenance budgets, and because:

- the accounting system did not capture complete costs on a building-by-building basis;
- the Financial Management System (FMS) did not meet the operating requirements of building managers. This resulted in an inefficient proliferation of specialized accounting and reporting systems in regions, in addition to the duplication and overlap of the Department's FMS and the Financial Reporting System (FRS) of the Department of Supply and Services. DPW exercises limited control over the FRS;
- there has been no development of operating standards since the control and reporting systems that did exist were used to avoid over-spending available funds rather than to provide meaningful performance data;
- reports generated by the Financial Management System were not timely, were not always accurate because of a significant number of coding errors and were frequently not sent to appropriate levels of management; and
- the reporting systems did not make sufficient use of the exception principle. The data presented did not relate actuals to budgets which would permit the identification of variances. In addition, the data were voluminous and of little use to operational managers.

16.78 The Department did not maintain a proper expenditure history record for each building. Such a record should show operating and maintenance expenditures against each building over a period of years. As an example of the inaccuracy of the present system for recording and reporting costs, an examination of the operating and maintenance records (Property Administration Building Report) for the three phases of the Place du Portage project showed the following variety of costs per square foot for maintenance:

	<u>1978</u>	<u>1979</u>
Phase I	\$3.54	\$3.00
Phase II	\$0.90	\$1.33
Phase III	\$1.70	\$2.22

The buildings are similar general purpose accommodations for which the unit costs should be approximately the same.

16.79 We have pointed out that the Department is developing and testing a system for performance measurement based on unit costs. This system has the capability of identifying inefficiencies on an exception basis. Documentation about the system states that:

"Standard costs should provide a reference point for comparing building performance against norms and assist in forecasting future cost requirements for new buildings. The identification of inefficient buildings should lead to investigation of these buildings, the factors that render them costly to operate, and the areas where potential savings may exist.

Another valuable concept being incorporated into this study, is a final report similar to the Building Owners & Managers Association (BOMA) annual reports. By way of this, performances can be readily and easily communicated to operational managers and Crown-owned buildings can be compared to private sector buildings listed in BOMA."

16.80 However, a cost accounting system, including the basis for developing unit costs, did not exist in the Department. Without relevant, accurate cost data the Performance Measurement System cannot operate.

16.81 *The Department of Public Works should implement its performance evaluation system based on unit costs as soon as possible and use its exception reporting capabilities to control operating and maintenance costs.*

Marine

16.82 Our review of the Marine Program revealed that:

- there was no system to relate physical progress to financial expenditures for major capital projects;
- there were no comparisons of costs or of service provided against standards;
- there was no formal post-completion review of projects; and
- there were unclear lines of authority and diffuse responsibility for Marine projects that made it difficult to hold managers accountable for their performance.

Transportation

16.83 Without a clearly defined operational plan, the Department could not assess performance or expenditures against objectives and goals. There was a proliferation of internal reports but none compared actual expenditures to budgets that were related to operational goals. Information on actual expenditures was understated because expenditures for planning and design of projects were not charged to the Program. Professional and technical person-years related to transportation projects were not allocated to the Transportation and Other Engineering Program.

Payroll Costs Management

16.84 Our examination of payroll costs management in the Department was part of a government-wide study of this area. It covered the activities of the Department related to manpower planning, training and development, and the development and use of human resource information systems. The results of the government-wide study are reported in Chapter 9.

Manpower Planning

16.85 The Department of Public Works did not know with a sufficient degree of accuracy how many people it required to carry out its activities efficiently and economically. Manpower planning to date has been incremental in nature, with any human resource analysis being undertaken primarily for the justification of additional resources.

16.86 Organizational goals and operational objectives were undefined. Therefore, it was not possible to correlate them with human resource require-

ments. Operational objectives were not used to generate work plans or activity analyses necessary for personnel deployment and utilization.

16.87 There were few meaningful standards in place for monitoring and appraising productivity, activity and performance. Although the Department has attempted to employ such standards in specific areas, they were generally based on inadequate data and were used only to support new resource requests.

Training and Development

16.88 No uniform method was used to identify individual, group and departmental training needs. The performance appraisal process, a major input in identifying training needs, was inadequate for this purpose and was carried out inconsistently. An internal review of this process has resulted in extensive revision, and a new system called the Performance Management Process has been implemented by the Department.

Human Resource Information Systems

16.89 Despite significant expenditure in the area of human resource information systems, reports from the automated systems were incomplete, inaccurate, and did not have the confidence of users. Users were maintaining manual "back-up" systems.

16.90 *The Department should improve its manpower planning procedures by developing meaningful standards through which client needs can be used to determine personnel requirements.*

16.91 *The Department should review existing human resource information systems to ensure that they meet the needs of users at the most economical cost.*

Management Information System

16.92 In 1962 the Report of the Royal Commission on Government Organization (Glassco Report) stated that:

"Government accounts are kept on a cash, as opposed to an accrual, basis and no clear or useful distinction is made between current and capital expenditures. Little or no account is taken of extra-departmental costs such as rent, maintenance, heating, cleaning, water, light, power or employees' fringe benefits (superannuation, unemployment and health insurance, and accident compensation); no charges are made for such services as mail and telephone. Moreover,

no allowance is made for the depreciation of capital facilities; no interest cost is computed for the use of capital or working funds; no allocation is made of grants in lieu of municipal taxes; and, of course, no account is taken of income taxes.

In brief, comprehensive costs to measure the efficiency of government operating activities are not available, except in isolated cases. Nevertheless, many public servants appear convinced that departments produce goods and services more cheaply than private enterprise. They ignore the fact that true costs exceed the figures provided by their accounts by fifty per cent or more. Despite the absence of true cost figures, the cost savings are often cited to support a decision to 'make' rather than 'buy'."

The Commission's concern still applies.

16.93 One of the major reasons for deficiencies in the Department's systems for planning, controlling and keeping management informed continues to be the lack of an adequate cost accounting system. Without a cost accounting system, averages, factors, indices, standards, etc., used as input to the various systems, are questionable because they are not based on reliable cost data but, instead, are based on subjective judgments or "years of experience". There is no method of internal or external comparison to determine the adequacy of such input, and the Department had no reliable means of knowing that possible past inefficiencies were not being carried forward from year to year.

16.94 If the input to the systems is questionable, then the output is likely to be just as questionable, despite the sophistication of the analytical process. More importantly, in the absence of reliable data, neither the Department nor anyone outside the Department can adequately assess performance. Comparisons become extremely difficult, if not impossible.

16.95 Based on our examination of the management information system at the Department, we concluded that:

- the accounting systems in place were cumbersome, prone to error, and did not generate the timely and reliable information that managers require to carry out their responsibilities. This has led to a costly and inefficient duplication of systems within the Department;
- there was no cost accounting system;
- the Department was burdened by a proliferation of management reporting procedures that generated a flood of information, most of which was incomplete or unreliable for control purposes;

- weaknesses in planning, budgeting and control systems resulted in unreliable data being presented in the programs by activity table in Volume II of the Public Accounts. Because reliable data were not captured in a comprehensive manner in the departmental accounts, the information in the activity tables was determined by a formula distribution based on the distribution originally presented in the Estimates;
- although the Department used several hundred systems to produce data, there was no evidence of a co-ordinated approach to providing systems to produce information needed by managers to make decisions in running the Department; and
- managers could not get a clear picture of operational reality since the information provided was not correct, sufficient or timely, and irrelevant data had not been filtered out.

16.96 *The Department of Public Works should develop and implement an improved accounting system, including cost accounting, to produce a data base of relevant, reliable and timely information for input into every management information system in the Department.*

Internal Audit

16.97 For the purpose of our audit, we defined internal auditing as the independent and systematic examination of departmental operations to provide objective information that indicates where improvement can be made in the economy, efficiency, effectiveness and control of its operations and resources.

16.98 Our review of the internal audit function in the Department of Public Works consisted of discussions with the audit staff, a review of the minutes of audit committee meetings and an examination of a selected number of audit files.

16.99 Although the audit group was at an early stage in its development and at the time of our field work had not performed planned procedural tests, we concluded that the Management Audit Group had made significant progress in establishing an audit approach, methodology and procedures. The group had gained an understanding and knowledge of the Department and the complexities of its operations so it could plan future audit activities. The group was competently directed and administered, and had a positive attitude toward its responsibilities.

Reporting to Parliament

16.100 In our 1978 Report, this Office considered the question of charging users for accommodation services. Because we believe that the proposals advanced in our 1978 Report offer significant advantages over other alternatives, we developed illustrative Estimates that were based on our proposed method of charging users for accommodation service. These illustrative Estimates are discussed in Chapter 7 of the 1978 annual Report.

Summary of Recommendations and Department's Comments

Recommendations

Department's Comments

Departmental Role and Objectives

16.35 The role of the Department of Public Works and its program objectives should be clarified, approved by central agencies, and then communicated to all department managers to ensure that the departmental activities for which they are responsible are directed toward fulfilling this role and achieving these objectives.

Agreed. For the past several years the Department has been seeking approval for a modified role and mandate in the context of proposals concerning the rationalization of real property operations in the federal government. The issue has also been recently addressed by the Standing Senate Committee on National Finance and the (Lambert) Royal Commission on Financial Management and Accountability. A policy decision on the Department's role/mandate will be followed by the development of an appropriate program structure and the communication of program objectives throughout the Department.

Operational Planning

16.46 The Department of Public Works should complete the development and implementation of a planning and control system including:

- development of the data base of cost, inventory, operating and other data necessary to the operation of the system and development of the programs needed to link the system to the data base; and
- development of standards for data quality and for operation of the system consistent with Treasury Board directives on planning capital acquisitions.

Agreed. A considerable portion of the required data base already exists and is used by management at various levels. The need for improvement in data quality and inter-system linkage has been recognized. Planned improvements in component elements of the overall system will contribute to the upgrading of the overall system.

Recommendations

Department's Comments

- | | | |
|-------|---|--|
| 16.53 | The Department of Public Works should develop standards for data completeness and accuracy for the Project Delivery System and should ensure that these standards are adhered to and the system is used in planning all capital acquisition projects. | Agreed. The Department considers the Project Delivery System to be central to its planning/execution/-evaluation cycle and priority attention is being given to its continued development and improvement, in terms of both content and conformity. |
| 16.55 | The Department of Public Works should develop guidelines and standards of quality for use in planning federal buildings. | Agreed, but it should be recognized that "Standards of Quality" is an elusive concept which has to be applied at several levels. Primarily, quality criteria finds most fundamental expression at the level of the specific project. In this respect, the Project Delivery System requires the development of quality standards for individual projects at the planning stage so that adherence to the standards can be monitored throughout the life of the project and quality evaluated at its conclusion. There is limited scope for the development of quality standards which will be applicable on a permanent basis to all projects or project types since this approach invites inflexibility and inhibits the required response to project-specific characteristics or environmental factors and to rapidly changing technological advances. |
| 16.59 | The Department of Public Works should develop unit costs for each building to form the basis for resource requirement planning for the operation and maintenance of buildings. | Agreed. A unit cost study begun in 1978 has been extended and expanded and the results obtained are considered to be of sufficiently acceptable quality to support valid analysis. Further work remains to be done both in refining the appropriate standards and systematizing the use of the standards as the basis for resource requirement planning. |

Recommendations

Department's Comments

16.68 The Department should ensure that the Alaska Highway Project is re-evaluated immediately on the basis of a proper analysis of needs and benefits and an adequate assessment of alternatives and costs.

It was the Department's intention to conduct a new planning study for the Alaska Highway in 1982, using up-dated traffic volumes and costs. There is no objection to advancing this date. The study will also include assessment of the value of the project as infrastructure in encouraging exploration and development of resources (hydro, coal, minerals, etc.)

Control and Reporting

16.76 The Department of Public Works should develop standards for use in the control and evaluation processes for all its capital acquisition projects.

Agreed. Will be done in the course of ongoing improvement and refinement of the Project Delivery System.

16.81 The Department of Public Works should implement its performance evaluation system based on unit costs as soon as possible and use its exception reporting capabilities to control operating and maintenance costs.

The Department recognizes the performance evaluation system as an essential link in the management cycle: to "close the loop" between planned achievement and actual results. Its introduction is paced by progress on other systems or related components on which evaluation will be based. In the circumstances, even with phased implementation "as soon as possible" may not be before late 1980.

Payroll Costs Management

16.90 The Department should improve its manpower planning procedures by developing meaningful standards through which client needs can be used to determine personnel requirements.

There is not a direct relationship between "client needs" and personnel requirements: the former are filtered and modified in the course of their incorporation into work plans. However, the Department agrees that manpower planning must be based on the application of productivity standards to operational and work plans. Ongoing improvements to the existing system will continue to be based on this principle.

Recommendations

Department's Comments

- 16.91** The Department should review existing human resource information systems to ensure that they meet the needs of users at the most economical cost.

The information systems now in use include provision for a periodic canvass of users to determine levels of satisfaction and to invite suggestions for improvements. The results of these canvasses will be subjected to more rigorous analysis with a view to meeting the intent of this recommendation.

Management Information System

- 16.96** The Department of Public Works should develop and implement an improved accounting system, including cost accounting, to produce a data base of relevant, reliable and timely information for input into every management information system in the Department.

Agreed. It should be noted, however, that the basic departmental accounting system is based on and conforms to the overall Financial Management requirements of government. The Department has already extended the basic system by the addition of a large variety of modules designed to meet the demands of departmental management, including some which incorporate cost accounting. The need to continue development of an improved accounting capability is recognized, with cost accounting a priority item.

DEPARTMENT OF SUPPLY AND SERVICES - SERVICES ADMINISTRATION

DEPARTMENT OF SUPPLY AND SERVICES - SERVICES ADMINISTRATION

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DEPARTMENT OF SUPPLY AND SERVICES - SERVICES ADMINISTRATION**SUMMARY OF FINDINGS, OBSERVATIONS AND RECOMMENDATIONS****History and Overview**

17.1 The Department of Supply and Services (DSS) was established on April 1, 1969 by the Government Organization Act, 1969, S.C. 1968-69, c. 28 (later the Department of Supply and Services Act, R.S.C. 1970, c. S-18 DSS Act). Amendments to the Financial Administration Act were also approved in 1969 to transfer certain functions of the former Comptroller of the Treasury to the Receiver General. The DSS Act designated the Minister of Supply and Services as the Receiver General for Canada and the Deputy Minister of Services as Deputy Receiver General for Canada.

17.2 The creation of the Department of Supply and Services resulted from the recommendations of the Royal Commission on Government Organization (Glassco Commission) on providing "common services" to the Government. Section 5(3) of the DSS Act describes the Department's activities as directed "mainly toward providing the departments and agencies of the Government of Canada with services in support of the programs of those departments and agencies."

17.3 The Department is composed of two Administrations, one for Supply, one for Services. The Services Administration (DSS-Services) was created by combining the Office of the Comptroller of the Treasury from the Department of Finance, the Central Data Processing Service Bureau from the Treasury Board Secretariat, the Bureau of Management Consulting Services from the Public Service Commission, and the Central Personnel Records Division from the Dominion Bureau of Statistics.

17.4 DSS-Services is responsible for providing a broad range of management and administrative services to the Government as a whole as well as to individual departments and agencies. DSS-Services is also required to fulfil the statutory responsibilities of the Receiver General for Canada, as set out in the Financial Administration Act, by:

- making all payments from the Consolidated Revenue Fund;
- reconciling all paid cheques and other instruments;
- maintaining the fiscal accounts of Canada; and

- preparing and producing the annual Public Accounts for presentation to the House of Commons by the Minister of Finance.

17.5 Under the Department of Supply and Services Act, DSS-Services is responsible for providing:

- management and advisory services in management consulting, auditing and computing;
- administrative services relating to pay, pensions and other employee benefit plans, including the Central Personnel Record System;
- financial management and statistical reports relating to the cheque issue function; and
- accounting and other administrative services.

17.6 To finance these activities during the year ended March 31, 1979, the Department received \$105 million by parliamentary appropriation and \$41 million as revenue for services provided. Services that resulted in revenue included:

- management and advisory services;
- provision of certain personnel reports, largely to the Treasury Board Secretariat; and
- payment-related services to departments, agencies and the Treasury Board.

17.7 The organization adopted by DSS-Services is shown in Exhibit 17.1. A synopsis of the responsibilities of each sector is outlined below.

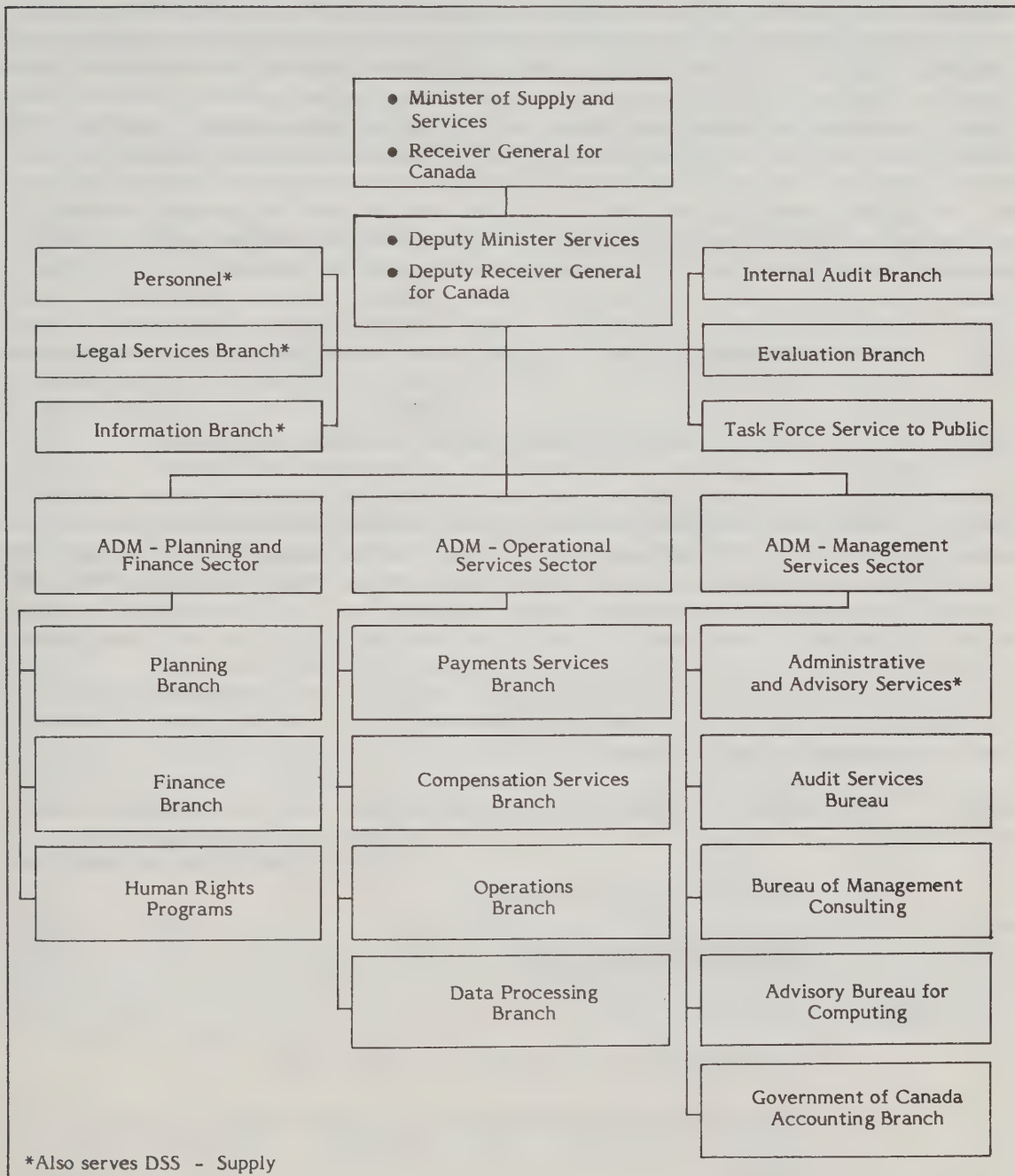
The Operational Services Sector

17.8 The Operational Services Sector is divided into four branches, each headed by a Director General, and is responsible for providing:

- administrative services relating to pay, pensions and other employee benefit plans;
- payment services for departments, including cheque issue;
- accounting and payment services for certain social and economic assistance programs; and

DEPARTMENT OF SUPPLY AND SERVICES
SERVICES ADMINISTRATION

SUMMARY ORGANIZATION CHART



*Also serves DSS - Supply

- safekeeping and administrative services relating to securities held by the Government.

17.9 The Compensation Services Branch is responsible for administering the public service payroll, superannuation and various employee benefit plans.

17.10 The Payments Services Branch is responsible for planning and policy formulation related to the Receiver General payment process. This responsibility includes investigation and development of new payment methods and technologies, payments policies and regulations, and contingency plans for all emergency situations that affect the provision of essential services by DSS-Services. The Branch provides functional direction to the operating branches regarding file maintenance and payment services for all social and economic assistance payments, suppliers' accounts and general accounts payments, and several optional accounting and reporting services. It is also responsible for planning, developing and co-ordinating all protective and preventive security requirements (physical, personnel, material and electronic data processing) of DSS-Services.

17.11 The Operations Branch has 27 offices in seven regions and one office in Lahr, Germany. These offices issue approximately 115 million cheques annually for all the types of payments mentioned. The Operations Branch also operates a securities safekeeping and administrative service for the Government.

17.12 The Data Processing Branch is responsible for providing data processing services for DSS-Services. It provides the computer programming and systems development support for cheque issue, file maintenance, accounting and financial statements to the other three branches of the Operational Services Sector and to the Government of Canada Accounting Branch in the Management Services Sector.

The Management Services Sector

17.13 This sector is divided into three bureaux and two branches and is responsible for providing the following services to departments and agencies:

- administrative and advisory;
- management consulting;
- auditing;
- central personnel information and data; and
- financial reporting, preparation of the Public Accounts and the Accounts of Canada, and reconciliation of Receiver General cheques.

Management consulting, auditing, and central personnel information and data services are provided on an optional, fee-for-service basis.

17.14 The Departmental Administrative and Advisory Services Branch

provides internal administrative and consultative services to both Supply and Services Administrations.

17.15 The Bureau of Management Consulting provides, on request and on a professional fee-for-service basis, a comprehensive management consulting service to federal departments and agencies, Crown corporations and provincial governments. Through the Department of External Affairs and the Canadian International Development Agency, the Bureau also offers services to international agencies and to governments of foreign countries.

17.16 The Audit Services Bureau provides, on request and through its regional offices across the country and its Head Office in Ottawa, a full range of auditing services to client departments and agencies. This assistance is offered on a professional fee-for-service basis. There are offices in eleven major Canadian centres including Ottawa, and one in London, England.

17.17 The Advisory Bureau for Computing provides specialized advice and technical services to departments and agencies in the area of personnel data systems. Under professional fee-for-service arrangements, the Bureau operates major personnel systems for the Treasury Board Secretariat and promotes the development and use of effective data processing and information-handling standards and practices throughout the Government of Canada.

17.18 The Government of Canada Accounting Branch maintains the Accounts of Canada, prepares and produces the Public Accounts, reconciles Receiver General cheques and warrants with the cash and bank balances of Canada and provides financial reports, management statements and supporting statistics to client departments and agencies. These services are offered free of charge.

The Planning and Finance Sector

17.19 This Sector provides the Department with planning, financial management and reporting services. The Personnel Branch and the Internal Audit Branch report directly to the Deputy Minister. At the time of our audit, an Evaluation Branch, also reporting directly to the Deputy Minister, had been established but was not yet in operation.

Scope of the Audit

17.20 In our audit we addressed the various management control and reporting processes used within DSS-Services in its role as a common service agency and examined internal controls in the Receiver General function. In connection with our mandate to report on procedures in place to measure and report on program effectiveness, we examined the statement of objectives of DSS-Services, including the functions of the Receiver General, as reflected in the Estimates. We adopted a multidisciplinary approach in our examination to present to Parliament the most comprehensive report possible on DSS-Services.

17.21 Our audit focused on ten major study areas which are listed in the Table of Contents for this Chapter.

17.22 DSS-Services is managed centrally. Operations at all locations throughout the country are carried out in a uniform manner, based on instructions from Head Office in the National Capital Region. Thus, we concentrated our audit primarily in the National Capital Region, although we also conducted certain audit tasks at most of the DSS-Services locations throughout the country.

17.23 We appreciate the co-operation received from all staff of DSS-Services during the course of our examination.

Summary of Audit Observations

Introduction

17.24 DSS-Services is an important part of the machinery of Government, providing a variety of services to all departments and agencies. These services, which include preparing and mailing all government cheques, represent one of the most tangible contacts that Canadians have with their Government. DSS-Services has been successful in issuing cheques on a timely and accurate basis and over the last few years has improved the efficiency of its cheque-issue and other services. Further improvements are required, however, and action needs to be taken in concert with departments, agencies and central agencies to make all services rendered by DSS-Services even more efficient and economical to the Government as a whole. A key to these improvements lies in defining more clearly the role of DSS-Services with respect to its client departments and their systems, through memoranda of understanding which specify the services to be provided and their costs.

17.25 We found a number of internal control weaknesses in the way DSS-Services performed the function of the Receiver General. These weaknesses did

not warrant a qualification of our audit opinion on the Public Accounts of Canada; however, they require prompt attention and correction.

17.26 The objective of DSS-Services as stated in the Estimates is:

"To provide in the most economical manner to the government as a whole and to client departments and agencies, a broad range of administrative management and advisory services in order to improve government efficiency and reduce costs."

17.27 DSS-Services stated that this objective expresses in layman's terms the objectives of its statutory duties under the DSS Act and of the functions of the Receiver General delineated in the Financial Administration Act. Consistent with this interpretation of the objective, the effectiveness measurement and reporting procedures of DSS-Services have focused on the efficiency and economy of its own operations.

17.28 An alternative interpretation of the wording of the objective in the Estimates is possible when no reference is made to DSS-Services' statutory duties under the DSS Act and those of the Receiver General under the Financial Administration Act. Such an interpretation would imply that, for each service it provides, DSS-Services needs to ensure that it provides the service more efficiently and at a lower cost to the Government as a whole, than would any other source. DSS-Services would thus need to focus its effectiveness measurement and reporting procedures on the operations of other departments as well as on its own operations.

17.29 We also found that the statutory duties of the Receiver General for Canada were not precisely reflected in the objective of DSS-Services as stated in the Estimates. DSS-Services stated that it performs the functions of the Receiver General on behalf of the Government as a whole, not as a service to any individual department or agency, including the Treasury Board and the Department of Finance. The Receiver General function has specific objectives in its own right. In addition, policies are developed by other central agencies for implementation by the Receiver General.

17.30 The usefulness of the Estimates as an instrument of accountability is diminished because the two interpretations of the present wording of DSS-Services' objective tend to make that objective imprecise. In addition, the objective does not clearly reflect the statutory duties of the Receiver General. To improve this accountability, we believe the objective of DSS-Services needs to be more precisely defined and communicated in the Estimates.

Observations on the Activities of DSS-Services

17.31 The principal activities of DSS-Services are summarized in Exhibit 17.2. Observations on each of these are provided in the pages that follow.

17.32 Issuing cheques. Part of the Receiver General function is to issue approximately 115 million cheques annually, based on requisitions from departments and agencies. The service is mandatory with no cost to the user department or agency. Five branches are involved in providing it.

17.33 We found that DSS-Services carried out this activity promptly and accurately, although procedures to verify signatures authorizing disbursements were cumbersome, difficult to apply, and at times inadequate, largely because of volume.

17.34 Services in support of issuing cheques. The Payment Services, Data Processing, and Operations branches provide this optional service to client departments and agencies. Costs to users range from no charge through partial cost recovery to full recovery of costs. We found that these services (systems design, master-file maintenance, etc.) were provided mostly through informal arrangements between DSS-Services and clients. DSS-Services is making a positive effort to formalize these arrangements through memoranda of understanding with its client departments and agencies.

17.35 Recently, DSS-Services began to make the cost of supplying these services visible, giving users a basis for assessing whether it is the most cost-effective alternative. This process should ultimately result in departments and agencies being able to determine which is the least costly service alternative available to them and to the Government. The Royal Commission on Financial Management and Accountability (Lambert Commission) recommended funding common service organizations through a system of revenue dependency on a full-cost basis.

17.36 In concert with users, DSS-Services also needs to determine the cost of alternative levels of service. The present levels range from limited service to situations where DSS-Services administers a major part of the program of another department, in addition to providing payment services. Often the cost recovered by DSS-Services is not commensurate with its cost of providing the service.

17.37 A more formal relationship between DSS-Services and its clients should also lead to a clearer definition of responsibilities for control over the system concerned. Users are not always informed by DSS-Services of details of the controls imposed within the DSS-Services portion of the system. This lack of information may give rise to duplication of controls or to the possibility that neither the user nor DSS-Services exercises control.

DEPARTMENT OF SUPPLY AND SERVICES
SERVICES ADMINISTRATION

SUMMARY OF PRINCIPAL ACTIVITIES

Service	Basis on which service is provided by DSS-Services	Cost to user department or agency	Branch of DSS-Services involved
Issuing cheques based on requisitions presented*	Mandatory	None	<ul style="list-style-type: none"> - Operations - Data Processing - Government of Canada Accounting Branch (GCAB) - Payments Services - Compensation Services
Services in support of issuing cheques, i.e., master-file maintenance, etc.	Optional	Is negotiated with user; range from no cost to full cost recovery	<ul style="list-style-type: none"> - Payments Services - Data Processing - Operations
Operation, maintenance and development of the Central Accounting System and preparation of the annual Public Accounts of Canada. Provision of both mandatory and optional financial reports to departments and agencies.*	Mandatory	None	<ul style="list-style-type: none"> - GCAB - Data Processing - Operations
Operation of the Consolidated Revenue Fund and the operation of banking facilities.*	Mandatory/Optional	None	
Operation of the Consolidated Revenue Fund and the operation of banking facilities.*	Mandatory	None	<ul style="list-style-type: none"> - GCAB - Data Processing - Operations
Compensation Services, including Superannuation Administration and Accounting.	Mandatory	None	<ul style="list-style-type: none"> - Compensation Services - Data Processing - Operations
Management and Advisory Services.	Optional	Full cost recovery	<ul style="list-style-type: none"> - Audit Services Bureau - Bureau of Management Consulting - Advisory Bureau for Computing (ABC)
Investigation and development of new financial control and information systems	Optional	Full cost recovery if marketable; otherwise none.	<ul style="list-style-type: none"> - Payments Services - ABC - Compensation Services - GCAB - Data Processing
*Receiver General Functions			

17.38 The operation, maintenance and development of the Central

Accounting System. The Central Accounting System is used to account for moneys received, cheques issued and other financial transactions of the Government of Canada. It is also employed in the preparation of reports on these transactions, including the monthly Financial Statements and the annual Public Accounts. As part of the Receiver General function, this service is primarily mandatory, provided at no cost to users, and operated by the Government of Canada Accounting Branch, the Data Processing Branch and the Operations Branch. The service results in some 34 million pages of financial reports being issued annually to departments and agencies.

17.39 There is an optional portion of the service where departments and agencies can provide additional input and receive data back in a format selected from several options. At the present time, DSS-Services estimates that this optional portion represents one-quarter of all reports issued.

17.40 DSS-Services expects departments and agencies to use these mandatory financial reports to determine whether their input has resulted in proper payments; whether payments have been charged or credited to the proper appropriation and accounting code; and ultimately, to certify that their financial data are properly disclosed in the Public Accounts of Canada. DSS-Services relies on departments and agencies to check these data carefully and considers this check an important control feature over its own data processing procedures. As to the ability of the user to evaluate the control impact of the financial reports, DSS-Services stated that, since each department receives detail listings and cash statements to enable it to agree its accounts with the central accounts, it was difficult to see how any department could not evaluate the financial controls over its programs, if it made the effort to do so.

17.41 A request by a department or agency for an optional financial report is considered by DSS-Services to be a mandatory request for service which is provided at no cost and without providing full cost information to the client. Clients are therefore unable to evaluate various alternatives to determine the most cost-effective source of the service required to meet their needs.

17.42 The systems that produce these financial reports process millions of transactions amounting to more than \$200 billion annually. With this volume, it is a difficult task to ensure that all transactions processed are properly authorized, accurately recorded, and reported on a timely basis.

17.43 Our 1975 annual Report (paragraph 10.26) recommended a study to improve the timeliness and accuracy of financial reporting. The Treasury Board Secretariat began such a study and issued a report in 1977. Since then the Office of the Comptroller General has taken over the responsibility for developing policies, standards and guidelines for financial reporting systems. Although the Office of the Comptroller General believes that the implementation of systems to

produce timely and accurate reports for departmental financial managers is a departmental responsibility, it is also monitoring DSS-Services' efforts in this area.

17.44 Since 1975, DSS-Services has made significant improvements in providing faster and more accurate reporting services. It has taken a further step and developed a more sophisticated financial control system (FINCON), which it believes will assist in providing more timely financial information. At present, FINCON is being implemented in three departments.

17.45 Since timely and accurate financial management information is essential to government departments and agencies, our audit approach assessed these activities of DSS-Services. However, we did not conduct a government-wide audit this year to assess the use government departments and agencies made of the financial management information provided by DSS-Services.

17.46 We concluded that, for optional services, DSS-Services should have more formal level-of-service arrangements with its clients and should clearly communicate the controls it applies and the cost it incurs in providing these services so that clients can evaluate alternative sources. Furthermore, there is a need for the Office of the Comptroller General, in concert with DSS-Services, to review the service of providing financial reports to departments and agencies to ensure that this service contributes to improved financial control.

17.47 **Operation of the Consolidated Revenue Fund.** This mandatory service is provided at no cost to departments and agencies, and includes the receipt, deposit and disbursement of public money, the redemption of paid cheques and warrants and the operation of banking facilities. It is a function of the Receiver General and is operated by the Government of Canada Accounting, the Data Processing and the Operations Branches.

17.48 Our audit work in this area was directed toward an evaluation of internal controls. Although we found a number of internal control weaknesses in the way in which DSS-Services performed the function of the Receiver General, they did not warrant a qualification of our audit opinion on the Public Accounts of Canada; however, they require prompt attention and correction.

17.49 **Compensation services.** These services include superannuation administration and accounting, are mandatory and are provided at no cost to user departments and agencies. The Compensation Services, Data Processing and Operations branches are all involved in providing these services, which result in payments to some 315,000 employees and 95,000 annuitants. Our audit work focused on the adequacy of financial controls over payroll deductions and superannuation accounting. We found deficiencies in both areas.

17.50 In following up our findings concerning inadequate controls over payroll expenditures set out in each of our annual Reports since 1975, we found that the role of DSS-Services in exercising financial control over these expenditures in relation to that exercised by departments and agencies still requires clarification. The Treasury Board Policy Circular No. 1977-37, issued in July 1977, established that control over payroll expenditures is a departmental responsibility and that DSS-Services' role in this process is one of service. This policy is subject to phased implementation beginning April 1, 1979, and the approach to its implementation by the Treasury Board Secretariat has expanded from co-ordination of departmental implementation to include training and monitoring. The immediate effort includes development and implementation of a comprehensive training program for personnel involved in pay in departments and agencies.

17.51 Internally, DSS-Services has significantly altered its three-year payroll system enhancement plan dated July 1, 1975. It has made major improvements in controlling input to the Regional Pay System which processes pay for 195,000 public servants. However, the improvements envisaged for accumulating current and historical pay data have not yet been made, and the Central Pay System, which was to have been eliminated, continues to be used for 120,000 public servants. Furthermore, as of March 31, 1979, DSS-Services was not providing a ready cross-reference to departments and agencies to facilitate the reconciliation of their paylists with their payroll expenditures. DSS-Services is currently addressing this problem.

17.52 The Treasury Board plans to outline in specific terms the responsibilities of departments and agencies for financial controls over payroll expenditures. Tentatively, the basic principles are that departments and agencies should:

- establish and enforce financial controls over their area of responsibility in the pay process;
- exercise and verify the authority to initiate pay transactions;
- arrange for custody and distribution of pay cheques by persons independent of the pay process;
- reconcile payroll totals with departmental controls and DSS-Services reports; and
- review salary distribution reports for accuracy and completeness.

17.53 It appears from the foregoing that the responsibility for financial control is in the process of being defined. In practice, however, departments, agencies and DSS-Services are in a transition period. Many of the mechanisms to

discharge this responsibility are not yet in place and control over payroll expenditures will continue to be inadequate until they are.

17.54 In evaluating financial controls over the Public Service Superannuation Accounts, we were unable to obtain satisfactory answers to certain questions from DSS-Services, the Treasury Board Secretariat or the Department of Finance. We found that there was no focal point of responsibility for these Accounts. The Office of the Comptroller General of Canada advised us that the overall responsibility is shared among the Treasury Board Secretariat, the Department of Finance, through the Department of Insurance, and DSS-Services, which maintains these Accounts and administers them. Each of these organizations has distinct responsibilities. DSS-Services' role was defined by its legal counsel as follows:

"It must be borne in mind that in maintaining the accounts and reporting thereon either pursuant to the provisions of the *Financial Administration Act* or through the Minister of Finance in accordance with the provisions of the respective superannuation accounts, the Minister of the Department of Supply and Services does not warrant the validity of the mathematical inputs. By this I (legal counsel for DSS-Services) mean that the Receiver General does not warrant that a particular payment which has been made was correct in amount having regard to the various formulas for determining the entitlement. The Minister obviously must rely and is entitled to rely upon the information furnished to him."

and

"The Minister of DSS is responsible for the calculations, i.e. application of the various formulas and is responsible by virtue of subsection 7(2) of the Department of Supply and Services Act and the Order in Council P.C. 1969-655. By the Order in Council, the Minister is authorized and directed to provide all of the administrative services required in respect of superannuation plans."

17.55 DSS-Services stated that it has been "designated" to do certain things on behalf of the responsible Minister, the President of the Treasury Board. Legal counsel for DSS-Services also stated: "Where a decision is taken by a DSS officer under this authority, it will be construed as the President's decision, not the decision of the Minister of DSS."

17.56 From the material presented, DSS-Services concluded that "the statutory instruments have dictated a divided responsibility in respect of the Superannuation Accounts and that responsibility is shared between the President of the Treasury Board and the Minister of Supply and Services."

17.57 In addition to the lack of clearcut overall responsibility for the Superannuation Accounts, we found that no mechanism existed to ensure the

accuracy of contributions from "Public Service Corporations". There are 44 active participating Public Service Corporations (entities listed in Schedule A of the Public Service Superannuation Act, R.S.C. 1970, c. P-36, including boards, commissions, Crown corporations, etc.) with 26,000 employees. The Treasury Board has decided as a matter of policy that actuarial deficiencies do not have to be recovered from Public Service Corporations. We estimate that as much as \$68 million of the unamortized actuarial deficiency may be chargeable to these Public Service Corporations and not to departmental votes as is the case at present. The Treasury Board is currently reviewing its policy in this area.

17.58 Management and advisory services. We believe that the operations of these services have not been adequately disclosed to Parliament. Exhibits 17.6 to 17.8 contain illustrations of suggestions to improve disclosure. Funds generated by the management and advisory services have been used on various DSS-Services projects which were approved by Treasury Board and which were not, under present rules, required to be disclosed separately.

17.59 Investigation and development of new financial control and information systems. DSS-Services has developed an on-line Financial Control System (FINCON) and is developing an on-line Personnel and Administrative Reporting System (PARS). A new computer-based system for the Superannuation Division is also being developed. These systems, designed to provide a better basis for financial and administrative controls, have the potential and are intended by DSS-Services to be applied on a government-wide basis.

17.60 The development of FINCON was followed with interest by the Treasury Board Secretariat and the Office of the Comptroller General. DSS-Services also communicated with the Treasury Board Secretariat and the Department of Insurance on PARS and the new superannuation system respectively. However, formal sign off had not been provided and there was no documented evidence that these systems had been approved by any of these organizations.

17.61 In addition, we found that DSS-Services did not include an estimate of its investigation and development expenditures in the Estimates and did not account for them in the Public Accounts. We believe this type of expenditure should be identified separately in both documents.

17.62 Under the DSS Act, DSS-Services "shall investigate and develop services for increasing the efficiency and economy of the public service of Canada". We found no documented evidence to prove that FINCON and PARS were so evaluated. DSS-Services explained that each system was developed at the request of a department, and that features were added by DSS-Services to make the systems marketable on a government-wide basis. We question whether DSS-Services should develop and market these systems without documented feasibility studies showing that the systems will increase the efficiency of the public service or result in a reduction of costs.

Summary of Findings and Recommendations

17.63 Our comprehensive audit of DSS-Services resulted in a number of reports to the Department containing detailed discussions of our findings, analyses and recommendations. This section of the Chapter summarizes our major findings and key recommendations for each of the areas examined.

Procedures to Measure and Report on Program Effectiveness

17.64 The objective of this part of our audit was to determine whether DSS-Services had established satisfactory procedures to measure and report on the effectiveness of its programs. Since DSS-Services essentially provides services in support of departmental and agency programs, its effectiveness can be measured on the basis of the extent to which it provides its services efficiently, promptly and in accordance with departmental and agency specifications. These issues are addressed elsewhere in this Chapter.

17.65 The objective of DSS-Services as stated in the Estimates is:

"To provide in the most economical manner to the Government as a whole and to client departments and agencies, a broad range of administrative management and advisory services in order to improve government efficiency and reduce costs."

17.66 The sub-objectives as stated in the Estimates are:

- "To provide a range of management and advisory services on a basis competitive with other sources.
- To maintain central government fiscal accounts and other records, and to prepare the Public Accounts.
- To provide payment and related administrative services for pay and employee benefit plans.
- To provide payment, accounting and financial management services."

17.67 In assessing the clarity of the stated objective, we found that its meaning may be subject to two interpretations. DSS-Services has been operating within an interpretation under which it is considered to have achieved its objective by meeting its statutory duties and by conducting its internal departmental operations in an efficient and economical manner. It has also developed

plans and has taken initial steps to identify and disclose its costs of optional services to clients and to expand the use of memoranda of understanding, so that clients in the future will be able to assess DSS-Services against alternative sources of services.

17.68 An alternative interpretation of the wording of the objective in the Estimates is possible when no reference is made to DSS-Services' statutory duties for "common services" under the DSS Act and those of the Receiver General under the Financial Administration Act. This interpretation would require DSS-Services to improve efficiency and to reduce costs on a government-wide basis in providing its services to the Government as a whole and to client departments. In this context, DSS-Services would achieve its objective by ensuring that its services contribute to increased government-wide efficiency and economy and it would thus need to focus its effectiveness measurement and reporting procedures on the operations of other departments as well as on its own operations.

17.69 How the Estimates objective is stated determines the nature of the performance information to be disclosed to Parliament and the procedures needed to measure effectiveness to improve accountability to Parliament.

17.70 Consistent with its statutory duties, DSS-Services has focused its measurement and reporting procedures on its internal operational concerns. DSS-Services stated that it has received advice from the Department of Justice that DSS-Services does not have the statutory authority to enforce the establishment of procedures to measure and report on whether its services, mandatory or optional, improve efficiency and reduce costs on a government-wide basis.

17.71 *To improve accountability to Parliament, DSS-Services should clarify its statement of objectives in the Estimates. This clarification should also apply to the objectives of the Receiver General for Canada.*

Planning and Control

17.72 In the last three years, the planning process has received a considerable amount of attention in DSS-Services. In 1976, it established a process for identifying and setting goals. In January 1979, a new Assistant Deputy Minister was appointed with general responsibility for planning and finance.

17.73 We found that most components of a sound planning process were in place; however, there is a need to complete the corporate level strategic plan which is being developed. This plan will include a definition of the role of DSS-Services and its objectives and long-range goals. In addition, it should ensure that, wherever possible, the long-range goals are measurable. We also found that long-term and short-term planning had been integrated with financial planning only to a limited extent.

17.74 DSS-Services has improved its control systems during the last five years. In 1975, it implemented a cost accounting system (INFORM) to control product costs. A "product" is a specific service rendered to a department. Performance measurement systems were introduced in 1973 and underwent a major revision in 1977. In spite of these developments, control systems in DSS-Services require further improvement. In INFORM, for example, we found that product costs were not accurate because allocations of indirect costs were unreliable.

17.75 *DSS-Services should strengthen its procedures to integrate all planning activities (corporate strategic, long-term, short-term) with financial planning to further improve the planning process.*

17.76 *To make INFORM, the product costing system, more useful, DSS-Services should improve the method of allocating indirect costs to specific products.*

Payroll Costs Management

17.77 Our audit concentrated on the manpower planning, training and development processes, and the human resource information systems used by DSS-Services. For the purpose of this audit, we defined:

- manpower planning as systems for ensuring that the appropriate numbers of people are available with the required skills when and where they are needed;
- training and development as the systems for identifying and meeting present and future skill, knowledge, and attitudinal requirements to improve job performance and to cope with technological and other changes; and
- human resources information systems as systems for providing managers with basic personnel information, i.e., profiles of employees and positions in an organization.

17.78 DSS-Services is a decentralized organization with personnel units at four different levels -- corporate, sector, branch and regional. In the last two years, it has introduced several improvements in managing its human resources. For example, it established detailed manpower plans for coping with several major changes in its operating environment. It also introduced a more systematic approach to identifying training needs and to delivering and managing its training and development activities. Further improvements, however, are needed.

17.79 **Manpower planning.** In spite of these recent efforts, we found that the processes and techniques used to determine and justify the manpower requirements of the Operational Services Sector, employing about 70 per cent of DSS-

Services' personnel, were still incomplete. The work standards used to translate workload forecasts into manpower requirements were based on historical data and there was little analysis to determine whether such standards were appropriate. The manpower budgeting exercise also focused on additions to or deletions from the current manpower base without examining the reasonableness of that base. As a result, there was inadequate assurance that the current manpower was of the right quality and number. DSS-Services recognizes most of these problems and is examining the feasibility of using engineered work standards in certain areas of the Operational Services Sector.

17.80 DSS-Services must be able to cope with the fluctuating demands of federal departments and agencies and must also respond to advances in technology and to changes in its own operating environment. Current manpower planning efforts are directed toward examining the impact of these individual changes and developing appropriate action plans for resolving any problems.

17.81 At the corporate level, DSS-Services had not fully implemented a comprehensive approach to personnel management planning to identify and resolve possible manpower surpluses or deficiencies or other major personnel problems. For example, several branches had no forecasts of the probable supply of staff that took into account such factors as expected mobility, retirements and required training time. As a result, expected requirements could not be compared with forecast supply and appropriate action plans developed.

17.82 This lack of adequate planning weakens the organization's ability to ensure that it now has, and will continue to have, the right number of people at the right level at the right time.

17.83 *The Operational Services Sector should periodically assess the reasonableness of the manpower base, given that changes in operating conditions occur regularly.*

17.84 *When the Performance Measurement System work standards have been refined, they should be used to justify the level of resources required so that managers have the tools to link resource requirements to output.*

17.85 *DSS-Services should strengthen its manpower planning activities at the corporate level to analyse, at least annually, the impact on personnel requirements arising from its general operational plans and to compare these requirements with forecast manpower supply to see whether any corrective action is required.*

17.86 **Training and development.** Training and development activities in DSS-Services are diverse, ranging from on-the-job training for clerks to formal

technical training for highly specialized personnel. DSS-Services has introduced several improvements in managing its training and development activities and intends to complete the implementation of new policies by 1980-81. Because the improved systems have not yet been fully introduced, there are still some weaknesses in this area, such as in the extent to which the performance appraisal process is used for identifying training and development needs. Although supervisors were being trained to use performance review reports for this purpose, we found that performance appraisals were not being carried out for 652 employees or 46 per cent of the non-clerical employees not subject to performance pay for the calendar year 1978.

17.87 Although DSS-Services has recognized on-the-job training as its major form of training, it uses other methods where appropriate. It is also introducing a more systematic approach to certain training activities where it previously relied on "coaching". This new approach includes the design and use of training modules and packages for specific clerical positions in the Operational Services Sector and of methods for identifying needs for such training and for evaluating its effectiveness. However, it has yet to examine the feasibility of extending this improved approach to the planning and evaluation of other similar "coaching" activities in DSS-Services as a whole.

17.88 *DSS-Services should examine all coaching and other on-the-job training activities to determine the feasibility of applying its improved, more formal approach to them.*

17.89 **Human resource information systems.** DSS-Services also requires a better data base and reporting system for the numbers and characteristics of its inventory of manpower and positions. For example, to plan for manpower needs, line managers and personnel chiefs must have ready access to information about attrition, likely retirements, age and experience profiles, and so on. The current departmental Personnel Information System serves both the Supply and Services Administrations of DSS at a reported annual cost of \$233,000. We found that users perceived the system to be inaccurate, untimely and incomplete. The absence of an adequate information system has led to the creation of duplicate systems and has hindered personnel management.

17.90 DSS-Services recognized the problems in the existing system and requested the Advisory Bureau for Computing of the Management Services Sector to investigate the development of a new personnel information system. The Advisory Bureau for Computing used this request as the basis for developing a personnel system that it could market throughout Government.

17.91 This decision was not based on a documented survey of other departments that identified a need for a new personnel information system. The system being developed is called the Personnel Administrative and Reporting System (PARS), which is an extension of the Treasury Board's Official Languages Information System (OLIS) and is intended to be marketed on a government-wide basis.

The development of this important new system was not supported by a sufficiently comprehensive cost-benefit analysis. The system was not in place at the time of our review; however, we will follow up on this matter in future audits.

Management of Electronic Data Processing

17.92 DSS-Services is one of the largest EDP users in the Federal Government. In fiscal 1978-79, DSS-Services reported annual electronic data processing (EDP) and EDP-related expenditures of \$37 million and employed some 1,200 person-years in this activity.

17.93 The Data Processing Branch has the principal responsibility in DSS-Services for providing technical EDP systems development services and for about one-third of its actual EDP operations. This Branch also has functional responsibility for the EDP operations managed in several centres across Canada by the Operations Sector and the Government of Canada Accounting Branch.

17.94 In general, we found that the major data centres provided timely and reliable services, and that operational management and control appeared adequate to ensure that EDP systems produce the intended results. However, we noted certain weaknesses in the management and control of EDP systems development projects and in the general planning for new systems and equipment.

17.95 EDP systems are developed and maintained on a project basis with resources provided by the Data Processing Branch and by the functional branches in DSS-Services. The phasing of projects and approval procedures are standardized in line with a published set of systems development guidelines; however, we found no common approach to project control and management among the projects that we reviewed. In some instances more than one project control system was used for different parts of the work and there were no cumulative total costs available for any of these projects. The lack of this type of information impairs the ability of DSS-Services to conduct reliable cost-benefit analyses.

17.96 EDP systems development and maintenance projects require a number of "sign off authorities" approving each phase of the work. Senior officials in DSS-Services have this authority and are responsible for approving reports and specifications produced in connection with each project. All EDP projects that we reviewed had sign off authorities within DSS-Services. However, we found that clients of DSS-Services who requested changes to suit their requirements did not always provide evidence of their final acceptance.

17.97 The functions of systems evaluation, quality assurance and maintenance of standards were not being carried out adequately. Since DSS-Services has many critical EDP systems that are costly to operate and are constantly being

modified to accommodate changes and additional requirements, their efficiency and effectiveness need to be continuously reviewed. This is necessary to ensure that the systems are meeting the requirements of the users and that EDP staff, equipment and other resources are being used efficiently.

17.98 Although long-range plans have been developed for a limited number of EDP systems, most have not been updated to reflect changes. There was no consolidated EDP systems plan which could be used as a basis for forecasting the equipment capacity needed or the other resources required such as for systems development. In the short term, budgeting for changes and improvements to existing systems was based on the current year plus additional resources as required to meet inflation or increased workloads.

17.99 EDP equipment planning did not include formal economic feasibility studies to identify and evaluate alternative equipment plans. Moreover, there was no formal annual review of load forecasts and equipment capacity that would identify potential savings. Had these measures been included in the EDP equipment planning and evaluation procedures of DSS-Services, some computer equipment being installed in the four regional computer centres would have been classed as unnecessary, and action could have been taken to reduce equipment rental expenditures.

17.100 In recent years DSS-Services has improved the security and reliability of its EDP operations. The RCMP Security Evaluation and Inspection Team has inspected the data centres in the Ontario and National Capital Regions, and action is being taken to implement its recommendations. Plans to respond to several contingencies have also been or are being developed. We noted, however, that comprehensive threat assessments, fundamental to developing effective security measures and contingency plans, had not been completed.

17.101 In summary, the day-to-day EDP operations of DSS-Services appear to be well managed and meet short-term service objectives, but better co-ordination and more effective systems planning and development are needed to improve the economy and efficiency of EDP in DSS-Services.

17.102 *The functional branches of DSS-Services should develop and maintain long-term EDP application systems plans in sufficient detail to provide the basis for operational budgeting and control in the short term, and personnel and equipment planning in the long term.*

17.103 *DSS-Services should ensure that all activities and tasks related to an EDP project are accounted for in one project planning and control system. The system should feature comparisons between actual costs and budgets.*

17.104 *Departments and agencies which initiate system changes should provide evidence of final acceptance of systems.*

17.105 *Plans for systems evaluations and post-implementation reviews should be developed, and a substantial increase should be made in the activities of systems evaluation, quality assurance, and maintenance of standards to ensure that EDP systems are providing economical and effective support to government programs and objectives.*

17.106 *DSS-Services should establish formal procedures for annual load-forecasting and equipment capacity review. The procedures should require that alternative equipment configurations be identified and costed for both short- and long-term planning purposes.*

17.107 *DSS-Services should conduct appropriate economic feasibility studies for all new EDP equipment configurations, including the EDP equipment currently being installed in the four DSS-Services regional computer centres.*

17.108 *Threat assessments should be completed as soon as possible for all DSS-Services EDP installations.*

Efficiency Measurement in the Operations Branch

17.109 With salary costs of approximately \$100 million and 5,500 person-years, it is important that DSS-Services have a workable system for measuring the efficiency of its operations. The Operations Branch, employing 2,400 person-years, is a key area; however, its present Performance Measurement System (PMS) requires improvement before it can be used to measure efficiency adequately. We found that the PMS standards did not include all clerical tasks performed in a given activity and were based on a self-logging or historical-actual basis. This situation tends to perpetuate any inefficiencies that may be built into the procedures and may cause these inefficiencies to be incorporated into the standards.

17.110 In applying the measurements used in developing the standards, steps were not taken to ensure that work methods were consistent on an office-to-office basis. Therefore, even though a task may have been well defined, the definition did not necessarily relate to the methods used in a specific District Services Office. Also, DSS-Services had not adequately measured the production capacity of its District Services Offices. This type of information would provide a better basis than exists at present for decisions to consolidate Offices in order to improve operational efficiency.

17.111 *The present Performance Measurement System should be revised to eliminate, wherever possible, inefficiencies built into the standards and to permit comparisons among District Services Offices.*

17.112 For District Services Offices, DSS-Services should review the production capacity, which is linked to product volumes and to person-years, equipment and other resources, in order to further improve its operational efficiency.

Internal Audit

17.113 To determine the adequacy of the internal audit effort and the extent to which we could rely on it in our work, we reviewed the internal audit function in April 1978 and followed up on our findings in April 1979.

17.114 The Internal Audit Branch (formerly Management Audit Branch), which had eight professional positions and spent about \$715,000 in 1978-79, has responsibility for the internal audit function in DSS-Services. The amount expended included approximately \$430,000 for audit services contracted from the Audit Services Bureau.

17.115 We found that DSS-Services has carried out extensive audit activity, particularly in the District Services Offices, and that the Internal Audit Branch was taking steps to increase audit coverage. For example, the Branch instituted an EDP audit function in 1976 and developed a "composite audit" concept in 1978, which combined compliance, financial and management audits in one operation.

17.116 Although we could rely only in a limited way on the internal audit activity for the current fiscal year in determining the nature, timing and extent of our work, the plans being developed at the present time should lead eventually to a significant reduction in the audit work required from our Office and to an expansion of the role of internal audit in the management process.

17.117 Development of this role, however, is subject to much-needed increases in the number of staff in the Internal Audit Branch for the audit coverage of computer-based systems. In addition, improvements are needed in defining the scope of the work contracted to the Audit Services Bureau. The recently adopted "product systems audit" approach is a step in the right direction because it extends the audit to all systems and procedures applied to a product and also crosses branch boundaries.

17.118 Our examination disclosed a number of problems in the internal audit area. First, primarily because of a shortage of EDP auditors, there was an absence of systems-based auditing of the major computerized systems DSS-Services operates. This means that none of the computer-based systems supporting some 30 payment and accounting services had been subjected to a full internal systems audit as at March 31, 1979. Because these systems have a significant effect on government-wide financial control, this lack of audit is particularly important. However, progress has been made in the auditing of one

major system, "Regional Pay", where an audit program has been developed and tested and the results of this testing are being evaluated.

17.119 For these systems, the Standards for Internal Financial Audit, prepared by the Office of the Comptroller General in 1978, assigns responsibilities as follows:

"For government-wide EDP systems operated by central service departments, the departmental internal audit group is responsible for auditing only those portions of the control framework established within its own department. The internal auditors of the service department are responsible for evaluating the remaining portions of the framework."

17.120 DSS-Services is taking steps to improve its capabilities in the area of auditing computer-based systems and recently conducted control evaluations of the EDP portion of two systems.

17.121 A second difficulty, caused partly by manpower shortages, was the absence of review by the Internal Audit Branch of the work conducted for it by the Audit Services Bureau. Plans have been made by the Branch to implement reviews in this area.

17.122 Finally, we observed that there has been a delay in developing operational standards for the Internal Audit Branch. This concern has been addressed and a proposal submitted to the Audit Committee.

17.123 During the year, DSS-Services improved the mechanisms for audit planning and a more elaborate plan was presented in June 1978 to the Audit Committee. New terms of reference for the Audit Committee were issued in June 1978 and the Committee adopted an expanded audit mandate in September 1978. These changes should increase the effectiveness of internal audit within DSS-Services.

Financial Controls Over Payroll Deductions for Public Service Payrolls

17.124 DSS-Services operates the Central Pay System and the Regional Pay Systems which process the pay for approximately 120,000 and 195,000 public servants respectively. In 1978-79, total annual pay deduction remittances generated by these systems were approximately \$2.2 billion. The Central Pay System is administered and operated in Ottawa; the Regional Pay System is administered and operated in 11 pay offices located across Canada, including Ottawa. Pay deductions are accumulated, paid and accounted for in the same offices.

17.125 To assess the adequacy of the financial controls over payroll deduction accounting, we evaluated the procedures and controls in place in selected payroll offices for:

- statutory and voluntary deductions from gross pay;
- employer matching of deductions, where applicable;
- payment to agencies on whose behalf deductions have been made; and
- proper accounting for the deductions.

17.126 Our audit of deductions in the Central Pay Division showed that individual responsibilities were not clearly defined. We further observed that most procedures were not adequately documented and some were not kept on a current basis. Separation of responsibilities and division of duties for preparing payment data and for making payments were not being maintained as required by the Treasury Board Guide on Financial Administration. Processing payment data and making payments are particularly sensitive activities.

17.127 The Remittance Control Ledger kept for Regional Pay deductions is designed to support and control independently the figures shown for payroll deductions in the Central Accounting System. We found that the entries in this Ledger were being prepared from the Central Accounting System reports, and that established procedures were not being followed, impairing the purpose of maintaining the Ledger as a control tool.

17.128 *Duties should be clearly defined and segregated, and responsibilities and authority should be clearly established and documented in the Central Pay Division.*

17.129 *All procedures should be documented and out-of-date procedures should be updated in the Central Pay Division.*

17.130 *The use of the Remittance Control Ledger in the Capital Regional Pay Office should be reviewed, and established procedures should be followed to reinstate the Ledger as a control tool.*

Financial Controls Over the Public Service Superannuation Accounts

17.131 To assess whether the Superannuation Accounts are fairly stated for inclusion in the Public Accounts of Canada, we examined the following areas:

- compliance with the Public Service Superannuation Act; and

- control systems and procedures, with particular reference to controls over contributions from and refunds to the participating Public Service Corporation employees.

17.132 Observations on matters which are the direct responsibility of DSS-Services. We noted financial control weaknesses in the systems and procedures for administering the Public Service Superannuation Accounts. For instance, there was no procedure in the Superannuation Division to reconcile the financial changes made to the annuitants' data base file with the related disbursements. We also observed that the existing system of processing controls was inadequate to ensure the completeness and accuracy of data processed. Further, because of a lack of proper system documentation of the EDP systems and programs, and because of weaknesses in certain processing controls, control over computer processing of superannuation data was not adequate. However, the quality control and post-audit activities of the Superannuation Division provided some compensating controls.

17.133 *DSS-Services should improve financial control over payments to annuitants by reconciling the amounts actually paid with the amounts authorized for payment and by documenting the computer-based systems and related programs.*

17.134 Observations on matters for which the responsibility is shared by DSS-Services and the Treasury Board. At a reported \$10.1 billion, the Public Service Superannuation Accounts represent one of the largest liabilities in the Public Accounts of Canada. DSS-Services is responsible for several administrative aspects of superannuation activities; however, the Treasury Board looks after all policy matters and lays the annual report on administration of these accounts before Parliament. As well, the Department of Finance is responsible for interest credits, salary increase credits, adjustments on the basis of actuarial reports, and tabling the actuarial reports in the House. With such distinct and separate responsibilities, there is no focal point of accountability for administering and directing all Public Service Superannuation Accounts. Largely because there is no focal point, several accounting and administrative matters have not been adequately addressed.

17.135 Public Service Superannuation Accounts transactions pertain to approximately 264,000 public servants and, in addition, to about 26,000 employees of 44 Public Service Corporations which participate actively in the Public Service Superannuation Accounts through different Acts of Parliament. We noted that there were no documented agreements covering terms of participation between the administrators of the Public Service Superannuation Accounts and the corporations whose employees participate.

17.136 There is a Treasury Board policy not to allocate a share of the reported annual actuarial liability adjustment (\$434 million in 1978-79) to the participating corporations. Currently, the Treasury Board is allocating all of this

adjustment to government departments. Consequently, these expenditures are not reflected in the statements of the Public Service Corporations. We estimate that as much as \$68 million of the unamortized actuarial deficiency may be chargeable to these corporations and not to departmental votes, as is the case at present. The Treasury Board is currently reviewing its policy in this area.

17.137 There were control deficiencies and a lack of assigned responsibilities for payments to and contributions by employees of Public Service Corporations and the corporations themselves. For example, there was no authority established to ensure that Public Service Corporations remit their own and their employees' contributions timely and accurately. DSS-Services informed us that it does not have the authority to take any action in this regard. Its responsibility is limited to recording the transactions submitted.

17.138 We found long delays in preparing the report on the actuarial evaluations for deficiencies. For example, the evaluation as at December 31, 1977 had not been completed by October 31, 1979. This delay resulted in an understatement of the liability in the Public Accounts at March 31, 1978 and at March 31, 1979, because the actuarial deficiency had not been reflected and the related interest expense had not been recorded. We estimate that the understatement of interest expense, because of the 27-month delay of the last actuarial report published on March 10, 1975 and effective as of December 31, 1972, amounted to about \$31 million. Although, these understatements will be corrected through subsequent actuarial evaluations, the account is inaccurate at each fiscal year-end and a portion of the actuarial deficiency is in fact a shortfall of interest recorded.

17.139 *A focal point of accountability for all transactions affecting the Public Service Superannuation Accounts should be instituted so that all transactions are monitored on a current basis and necessary corrective actions can be recommended to the appropriate departments and participating Public Service Corporations.*

Internal Controls in the Receiver General Function

17.140 Our audit of this function was designed to permit us to express an opinion on the amounts recorded in the Public Accounts pertaining to the Consolidated Revenue Fund and on the preparation of the Public Accounts.

17.141 We found a number of internal control weaknesses in the way DSS-Services performed the function of the Receiver General. These weaknesses did not warrant a qualification of our audit opinion; however, they require prompt attention and correction.

17.142 Individual departments are the source of nearly all of the original entries of data recorded by the Government of Canada Accounting Branch in the

Central Accounting System and ultimately used in the preparation of the Public Accounts. This arrangement makes it important that clear linkages exist between the reports produced by DSS-Services and those generated by departments. Where they contain certain identical data, the figures should be the same. It is also important that departments clearly understand which controls DSS-Services exercises and which controls departments must exercise to achieve effective financial control. DSS-Services stated that, since each department receives detail listings and cash statements to enable it to agree its accounts with the central accounts, it was difficult to see why any department could not evaluate the financial controls over its programs, if it made the effort to do so.

17.143 In the District Services Offices we observed a number of deficiencies in the way signature cards were being maintained and disbursements verified to ensure that they had been authorized properly, as required by Section 26 of the Financial Administration Act. We believe that this is an example of an important control mechanism becoming less effective because of the pressure of the large volume of specimen signature cards which the Receiver General is responsible for maintaining for all departments and agencies. Because of these control weaknesses, cheques could be, and have been, issued by the Receiver General on insufficient authority.

17.144 We found that personnel in the District Services Offices and the Source Data Control unit altered client-prepared batch totals. We were told that normally the client department was informed of the change. There was, however, an incomplete management trail of the reasons for the changes, a lack of assurance that client department clearance had been obtained, and an absence of supervisory review.

17.145 At present, more than 100 different formats of cheque requisitions are in use. Some require that attached invoices be read, thus increasing the possibility of errors and decreasing efficiency of conversion into computer-readable form.

17.146 In addition to the uncertainty of the role of DSS-Services concerning payroll matters in relation to departments referred to in paragraph 17.50, the Departmental Reporting System (DRS) reports did not show payroll dates until May 1979. These payroll dates are needed to facilitate the reconciliation by departments of their paylists with payroll expenditures and their control over these expenditures. Consequently, these reconciliations were frequently not effectively conducted during the fiscal year ended March 31, 1979. The Treasury Board has defined this reconciliation as a departmental responsibility and is developing training modules for departments.

17.147 Differences arose from time to time between the total value of cheques recorded by the Cheque Redemption and Control Division (CRCDD) as having been issued and the related expenditure data recorded in the Central

Accounts Data Bank. Our audit showed that certain of the District Services Offices did not resolve these differences properly. Specifically:

- such differences were not being promptly followed up;
- District Services Offices gave inadequate, or, at times, no explanations for differences; and
- unresolved differences were being carried from year to year as a "reconciling" item.

These concerns were discussed with senior officers of the Government of Canada Accounting Branch. Progress is being made in resolving the issues and the matter will be followed up in future examinations.

17.148 Included in the monthly reconciliation of outstanding cheques were some long-outstanding unreconciled differences which had not been satisfactorily cleared or resolved.

17.149 *A review should be made of the procedures followed in verifying signatures with a view to reducing the need for the present volume of signatures.*

17.150 *Where client-prepared data is altered by District Services Offices or Source Data Control, the reasons for doing so should be documented for management review.*

17.151 *DSS-Services should suggest amendments to the Account Verification and Payment Requisition Regulations to reduce the variety of cheque requisition formats.*

17.152 *The Government of Canada Accounting Branch and the Operations Branch should strengthen their procedures to ensure timely follow-up and explanation of differences between cheques issued and accounted for.*

17.153 *Procedures for reconciling cheques issued with cheques redeemed should be strengthened to ensure that differences are explained on a timely basis and unexplained differences are not carried forward beyond two years.*

Reporting to Parliament

17.154 Our audit of DSS-Services in its role as the provider of a range of audit, management and advisory services on a cost-recovery basis was designed to assess how adequately these activities and their performance by DSS-Services are disclosed to Parliament.

17.155 Present disclosure. Chapter 6 of our 1978 annual Report dealt with the necessity for departments to submit more informative reports to Members of Parliament. The key issue was the need to enhance accountability of departments and agencies through such means as:

- greater disclosure to Parliament by departments of what they seek to achieve in the current year, how they plan to proceed, who will be responsible and how they plan to measure success; and
- greater emphasis on the reliability of information in the Estimates and its comparability with information in the Public Accounts.

17.156 The Lambert Commission stated that:

"all revenues arising from charges to users of services should appear in the Estimates as revenue, and the full cost of raising those revenues should be identified. Then, sensible proposals either to reduce costs or increase revenues can be developed".

17.157 Taking into account these concerns, we selected for study the three bureaux of DSS-Services that provide professional services on a fee-for-service basis. These are the:

- Audit Services Bureau;
- Bureau of Management Consulting; and
- Advisory Bureau for Computing.

17.158 Within the present format of the Main Estimates and Public Accounts, program expenditures are shown by activity and in total, as set out in Exhibit 17.3. The Advisory Bureau for Computing is included in the activity, Accounts of Canada and Reporting Services. The Audit Services Bureau and the Bureau of Management Consulting are included in Management, Financial and Other Services.

17.159 Although the expenditures of the bureaux are included in two distinct activities, revenue from all three is combined with that from other sources in one category, Receipts and Revenue Credited to the Vote. Consequently, the present method of disclosure does not relate the revenues to the expenditures incurred to earn them. Furthermore, the present format does not disclose to Parliament the financial results of the operations of these activities.

17.160 A suggested approach. To improve the information supplied to Parliament by DSS-Services, we suggest first that the Estimates include detail on each

DEPARTMENT OF SUPPLY AND SERVICES
SERVICES ADMINISTRATION

INFORMATION CURRENTLY GIVEN
IN THE PUBLIC ACCOUNTS

Department of Supply and Services
Services Administration

1978-79
(thousands of dollars)

	<u>Appropriations</u>	<u>Expenditures</u>
SERVICES PROGRAM - BY ACTIVITY		
Program Administration	2,784	2,847
Public Service Compensation Administration	36,042	38,946
Social and Economic Assistance Payment Administration	30,584	31,039
Accounts Payable and Other Payments Administration	12,057	12,142
Accounts of Canada and Reporting Services	25,238	23,874
Management, Financial and Other Services	30,006	29,826
Interim Financing	8,000	
Contributions to Employee Benefit Plans	<u>10,881</u>	<u>10,881</u>
	155,592	149,555
Less: Receipts and Revenues Credited to the Vote	<u>40,743</u>	<u>44,713</u>
	114,849	104,842
Add: Services Provided by Other Departments	<u>11,016</u>	<u>11,016</u>
TOTAL COST OF PROGRAM	<u>125,865</u>	<u>115,858*</u>

* includes: Operating Expenditures 114,254
 Capital Expenditures 1,604
 115,858

major service provided. For example, gross expenditures and any related recovery should be disclosed separately. Second, when the Estimates say services are "to be provided on a basis competitive with other sources", the level of disclosure should be similar to that of organizations providing these services in the private sector. As well, the use made of net revenues generated by the services in excess of those estimated should be disclosed.

17.161 To illustrate the kinds of information that Parliament could receive, we prepared a number of financial statements and supporting exhibits from data readily available through DSS-Services' internal reporting systems. A brief description of each illustration follows.

17.162 Exhibit 17.4 (Illustration 1). Net program cost for DSS-Services, by sector. This exhibit relates the total program cost (as per Exhibit 17.3) to the three sectors of the Department in summary form. It is presented to show the breakdown of DSS-Services by sectors.

17.163 All elements of expenditure and revenue are included in the sector figures on a net basis, with the exception of contributions to employee benefit plans and services provided by other departments (principally accommodation). These amounts should be allocated to each sector; however, the necessary information was not readily available to enable us to do so.

17.164 Exhibit 17.5 (Illustration 2). Net program cost for Management Services Sector by bureau/branch. This illustration follows the same format as Illustration 1 with details of the individual bureaux and branches comprising this Sector. It is provided to relate the sectors to the Audit Services Bureau.

17.165 Exhibits 17.6 to 17.8 (Illustration 3). Financial statement for the Audit Services Bureau. This illustration, including supporting information, is provided as an example of what we suggest for each bureau.

17.166 Illustration 3 follows the format of the first two illustrations, except that gross expenditures and revenues are identified separately for the bureau. The supporting information includes charts and graphs summarizing expenditure detail as well as revenue by source, hours of professional service, staff use and so on, as appropriate.

17.167 Although we have not included narrative explanations for the major variations highlighted in each statement, managers would normally be expected to do so. Such a commentary would greatly enhance the clarity of the presentation and would increase its utility for the reader.

DEPARTMENT OF SUPPLY AND SERVICES
SERVICES ADMINISTRATION

ILLUSTRATION OF NET PROGRAM
COST BY SECTOR

ILLUSTRATION I
NET PROGRAM COST BY SECTOR
FOR THE YEAR ENDED MARCH 31, 1979

(thousands of dollars)

	Actual 1978-79	Estimates 1978-79	Actual to Estimates 78-79 Change	%	Actual 1977-78	Actual 78-79 to Actual 77-78 Change	%
CENTRAL MANAGEMENT SECTOR	1,215	1,187	28	2.4	1,223	(8)	(0.7)
MANAGEMENT SERVICES SECTOR	11,605	15,499	(3,894)	(25.1)	10,315	1,290	12.5
OPERATIONAL SERVICES SECTOR	81,193	77,015	4,178	5.4	70,611	10,582	15.0
SUPPLY REVOLVING FUND REBATE	<u>(52)</u>	<u>-</u>	<u>(52)</u>	-	<u>-</u>	<u>(52)</u>	-
SUBTOTAL	93,961	93,701	260	0.3	82,149	11,812	14.4
CONTRIBUTIONS TO EMPLOYEE BENEFIT PLANS	10,881	11,754	(873)	(7.4)	9,694	1,187	12.2
SERVICES PROVIDED BY OTHER DEPARTMENTS	<u>11,016</u>	<u>11,016</u>	<u>-</u>	-	<u>8,160</u>	<u>2,856</u>	35.0
TOTAL PROGRAM COST	<u>115,858</u>	<u>116,471</u>	<u>(613)</u>	(0.5)	<u>100,003</u>	<u>15,855</u>	15.9

() = decrease

DEPARTMENT OF SUPPLY AND SERVICES
SERVICES ADMINISTRATION

ILLUSTRATION OF NET
PROGRAM COST -
MANAGEMENT SERVICES SECTOR

ILLUSTRATION 2

MANAGEMENT SERVICES SECTOR

NET PROGRAM COST

FOR THE YEAR ENDED MARCH 31, 1979

(thousands of dollars)

	<u>Actual</u> <u>1978-79</u>	<u>Estimates</u> <u>1978-79</u>	<u>Actual to</u> <u>Estimates 78-79</u> <u>Change</u>	<u>%</u>	<u>Actual</u> <u>1977-78</u>	<u>Actual 78-79</u> <u>to Actual 77-78</u> <u>Change</u>	<u>%</u>
ADVISORY BUREAU FOR COMPUTING	602	583	19	3.3	373	229	61.4
AUDIT SERVICES BUREAU	0	2,058	(2,058)	(100.0)	495	(495)	(100.0)
BUREAU OF MANAGEMENT CONSULTING	<u>(901)</u>	<u>697</u>	<u>(1,598)</u>	<u>(229.3)</u>	<u>(736)</u>	<u>(165)</u>	<u>(22.4)</u>
SUBTOTAL - BUREAUX ON COST RECOVERY	(299)	3,338	(3,637)	(109.0)	132	(431)	(326.5)
GOVERNMENT OF CANADA ACCOUNTING BRANCH	11,344	11,620	(276)	(2.4)	9,697	1,647	17.0
ASSISTANT DEPUTY MINISTER'S OFFICE	<u>560</u>	<u>541</u>	<u>19</u>	<u>3.5</u>	<u>486</u>	<u>74</u>	<u>15.2</u>
TOTAL SECTOR COST	<u>11,605</u>	<u>15,499</u>	<u>(3,894)</u>	<u>(25.1)</u>	<u>10,315</u>	<u>1,290</u>	<u>12.5</u>

It should be noted that the Bureau of Management Consulting and the Audit Services Bureau were required by Treasury Board to use a 90 per cent (85 per cent in 1978) cost-recovery basis in 1979 for budgetary purposes. The Advisory Bureau for Computing is composed of three responsibility centres. The largest, Personnel Applications Centre, is operated on a 100 per cent cost-recovery while the other two are financed by appropriations. The Government of Canada Accounting Branch and the Assistant Deputy Minister's Office are funded through departmental appropriations.

**DEPARTMENT OF SUPPLY AND SERVICES
SERVICES ADMINISTRATION**

ILLUSTRATION OF A SUGGESTED APPROACH TO DISCLOSURE

ILLUSTRATION 3

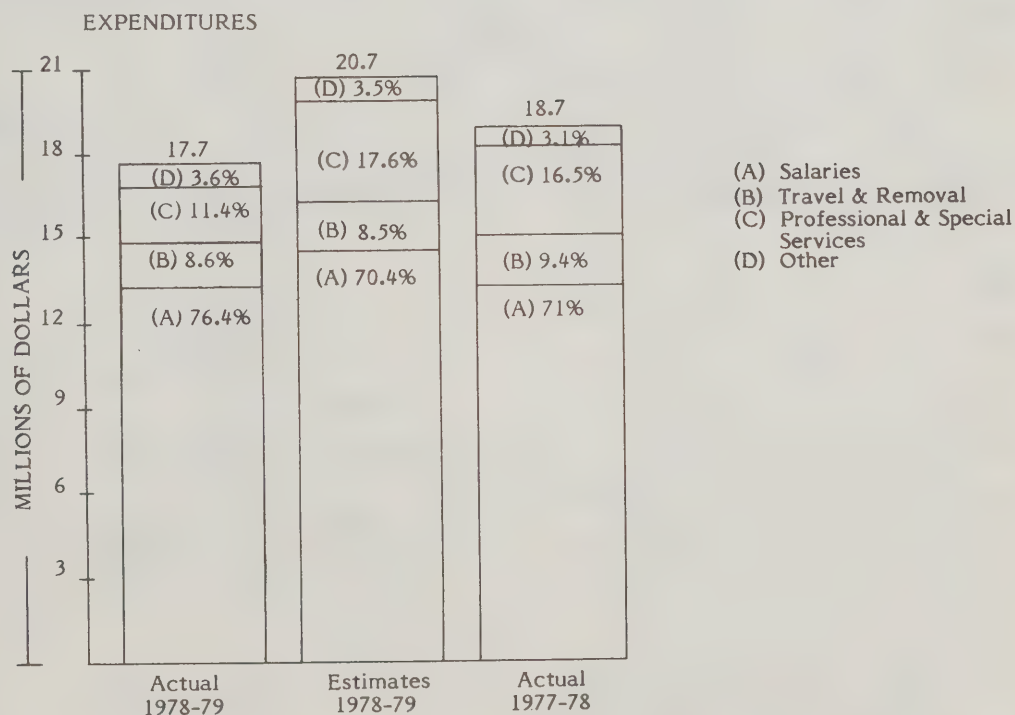
AUDIT SERVICES BUREAU OPERATIONS

FOR THE YEAR ENDED MARCH 31, 1979

(thousands of dollars)

	Actual 1978-79	Estimates 1978-79	Actual to Estimates 1978-79		Actual 1977-78	Actual 78-79 to Actual 77-78	
			Change	%		Change	%
Expenditures	17,714	20,703	(2,989)	(14.4)	18,694	(980)	(5.2)
Revenue	17,714	18,645*	(931)	(5.0)	18,199	(485)	(2.7)
Net Revenue (Expenditure)	<u>0</u>	<u>(2,058)</u>	<u>2,058</u>		<u>(495)</u>	<u>495</u>	

() = Decrease

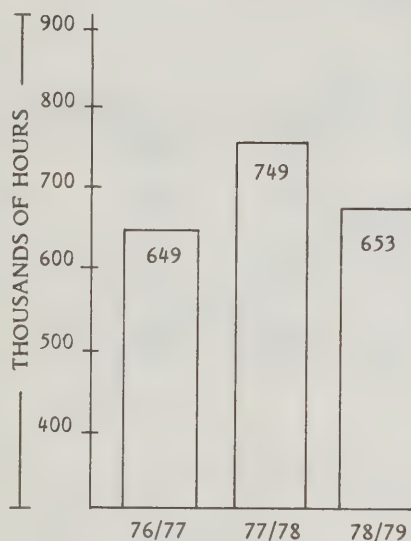


DEPARTMENT OF SUPPLY AND SERVICES
SERVICES ADMINISTRATION

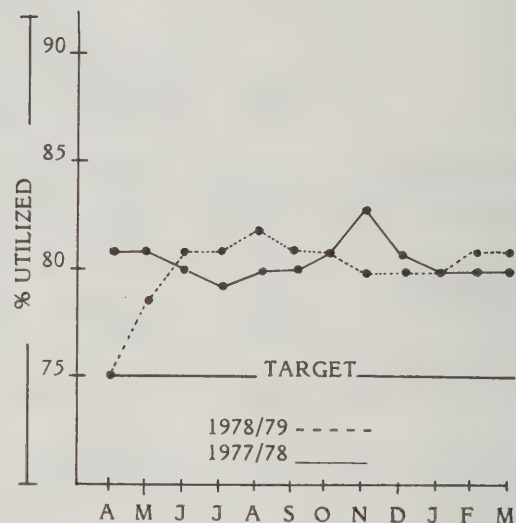
ILLUSTRATION OF A SUGGESTED APPROACH TO DISCLOSURE

ILLUSTRATION 3 (Continued) AUDIT SERVICES BUREAU

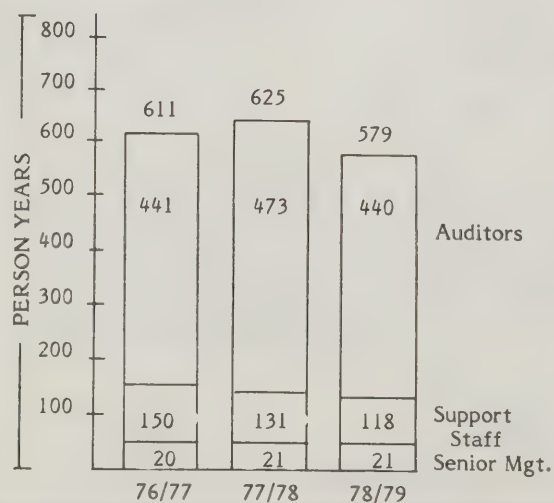
Professional Hours *



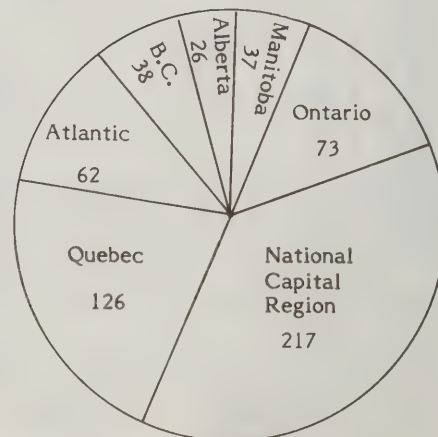
Professional Staff Utilization



Person Years by Category *



Distribution of Person Years by Region
1978/79



*Five Year Presentation Desirable

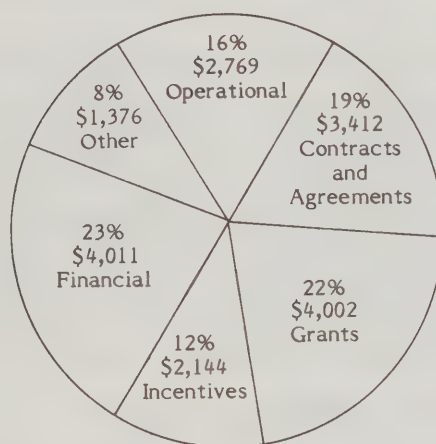
DEPARTMENT OF SUPPLY AND SERVICES
SERVICES ADMINISTRATION

ILLUSTRATION OF A SUGGESTED APPROACH TO DISCLOSURE

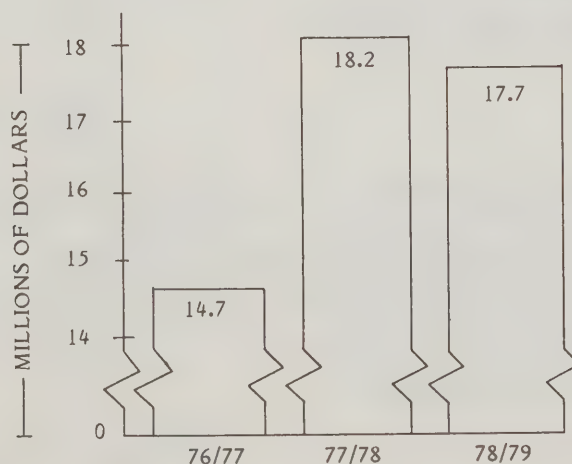
ILLUSTRATION 3 (Continued)

AUDIT SERVICES BUREAU

PERCENTAGE OF AMOUNT BILLED BY TYPE OF WORK IN 1978/79



TOTAL FEES BILLED*



* Five Year Presentation Desirable

17.168 The figures shown are those supplied by DSS-Services and have not been checked by us.

17.169 Impact of suggested approach. Illustration 3 details the results of operations for the Audit Services Bureau. Similar illustrations could be produced for the Bureau of Management Consulting and the Advisory Bureau for Computing. In each case, revenue for the year is compared to Main Estimates revenue, with any dollar and percentage variation highlighted.

17.170 Our illustration does not extend to setting up a revolving fund, although such a fund could be established for these services, as we previously illustrated for another revenue dependent organization, the Department of Public Works, in Chapter 7 of our 1978 annual Report.

17.171 The three bureaux generated net revenues of \$3.6 million (\$3.9 million in 1978) in excess of the amounts estimated. Treasury Board directions require that revenues in excess of 125 per cent of those estimated be placed in a separate allotment subject to Treasury Board control. The excess revenues stated above, although large, have not exceeded the allowable 25 per cent and, in accordance with the regulations, DSS-Services was permitted to use them to fund items which were not included in the Estimates and which were not related to the activities of the bureaux, but which were subsequently authorized by the Treasury Board. Without these additional revenues, DSS-Services would have had to seek funding through Supplementary Estimates or through Treasury Board contingency votes.

The net excess revenues were generated as follows:

	1979 (millions of dollars)	1978
Audit Services Bureau	2.0	2.3
Bureau of Management Consulting	1.6	1.4
Advisory Bureau for Computing	-	.2
	<u>3.6</u>	<u>3.9</u>

Some examples of the uses to which these excess revenues were put are:

Relocation of the Superannuation Division	.7	1.8
Severance Pay and Bilingual Bonuses	.3	1.0
Matane Project (relocation)	.5	.5
Project - Quebec Taxation and Family Allowance Rebate Program	.5	-

The balance was used for minor projects or was included in funds lapsed.

Summary of Recommendations and DSS-Services' Comments

Recommendations

DSS-Services' Comments

Procedures to Measure and Report on Program Effectiveness

17.71 To improve accountability to Parliament, DSS-Services should clarify its statement of objectives in the Estimates. This clarification should also apply to the objectives of the Receiver General for Canada.

We will review the Main Estimates objective and sub-objectives to ensure that there is a precise relationship between them and the statutory duties specified in the DSS Act and the Financial Administration Act.

Planning and Control

17.75 DSS-Services should strengthen its procedures to integrate all planning activities (corporate strategic, long-term, short-term) with financial planning to further improve the planning process.

Agree. An action plan related to these matters has been produced in response to the Office of the Comptroller General's IMPAC review. It is planned to have improved systems in place on April 1, 1980 for use in the 1980-81 fiscal year. This is the final step in a process begun in the spring of 1975 for improving the planning system.

17.76 To make INFORM, the product costing system, more useful, DSS-Services should improve the method of allocating indirect costs to specific products.

Agree. DSS-Services will continue to improve the system for the allocation of costs to products. A study is underway in which all cost allocation will be reviewed.

Payroll Costs Management - Manpower Planning

17.83 The Operational Services Sector should periodically assess the reasonableness of the manpower base, given that changes in operating conditions occur regularly.

The methods of assessing the reasonableness of the manpower base are currently being reviewed. DSS-Services is also examining the feasibility of using engineered work standards in certain areas of the Operational Services Sector.

Recommendations

DSS-Services' Comments

17.84 When the Performance Measurement System work standards have been refined, they should be used to justify the level of resources required so that managers have the tools to link resource requirements to output.

Agree.

17.85 DSS-Services should strengthen its manpower planning activities at the corporate level to analyse, at least annually, the impact on personnel requirements arising from its general operational plans and to compare these requirements with forecast manpower supply to see whether any corrective action is required.

The new Treasury Board Personnel Management Planning policy was received in this Department in late March 1979. Compliance with this policy will provide a corporate plan annually as recommended. This corporate analysis extends our present sector level process one more step.

**Payroll Costs Management -
Training and Development**

17.88 DSS-Services should examine all coaching and other on-the-job training activities to determine the feasibility of applying its improved, more formal approach to them.

Agree. DSS-Services will continue to implement its three-year plan which was approved by the Treasury Board. We commenced the final year of this plan in fiscal year 1979-80.

**Management of Electronic Data
Processing (EDP)**

17.102 The functional branches of DSS-Services should develop and maintain long-term EDP application systems plans in sufficient detail to provide the basis for operational budgeting and control in the short term, and personnel and equipment planning in the long-term.

Long-term EDP application systems plans have been developed for certain major systems and this planning process will be extended. The plans will be maintained to provide the basis for operational budgeting and control in the short term, and personnel and equipment planning in the long term.

Recommendations

DSS-Services' Comments

- | | | |
|---------------|--|--|
| 17.103 | DSS-Services should ensure that all activities and tasks related to an EDP project are accounted for in one project planning and control system. The system should feature comparisons between actual costs and budgets. | Agree. This is done to a certain extent at present and will be expanded, particularly in the area of cost collection. |
| 17.104 | Departments and agencies which initiate system changes should provide evidence of final acceptance of systems. | Final acceptance is generally requested at present and Services will increase its efforts to obtain formal final acceptance in the future. |
| 17.105 | Plans for systems evaluations and post-implementation reviews should be developed, and a substantial increase should be made in the activities of systems evaluation, quality assurance, and maintenance of standards to ensure that EDP systems are providing economical and effective support to government programs and objectives. | Agree. A plan will be developed to achieve this over a suitable time frame. |
| 17.106 | DSS-Services should establish formal procedures for annual load-forecasting and equipment capacity review. The procedures should require that alternative equipment configurations be identified and costed for both short- and long-term planning purposes. | Agree. The required formal procedures will be developed. |
| 17.107 | DSS-Services should conduct appropriate economic feasibility studies for all new EDP equipment configurations, including the EDP equipment currently being installed in the four DSS-Services regional computer centres. | This is being done to some extent at present and will be expanded. |

Recommendations

DSS-Services' Comments

- 17.108** Threat assessments should be completed as soon as possible for all DSS-Services EDP installations.

Some threat assessments have been completed. Others are underway. Subject to resource constraints, the remaining sites will be assessed according to the plan of the Access Review Project which extends from September 1979 to September 1982. Threat assessment packages will be in the hands of all sites by the end of 1979 to start on the preliminary work.

Efficiency Measurement in the Operations Branch

- 17.111** The present Performance Measurement System should be revised to eliminate, wherever possible, inefficiencies built into the standards and to permit comparisons among District Services Offices.

One of Operations Branch's 1979-80 goals is to refine and automate the Performance Measurement System and a formal project to meet this objective is now in progress. A priority activity within this project is to develop more accurate and specific work standards. Additionally, the project team will be developing a Manager's Guide which will serve to instruct all Branch management in the interpretation and comparison of performance measurement data. The Branch also plans to develop a formal program to regularly review and validate PMS work standards on a scheduled basis.

- 17.112** For District Services Offices, DSS-Services should review the production capacity, which is linked to product volumes and to person-years, equipment and other resources, in order to further improve its operational efficiency.

Planned enhancements to the Performance Measurement System will provide such linkages and the data produced will be used to further improve operational efficiency and effectiveness.

Recommendations

DSS-Services' Comments

**Financial Controls Over Payroll
Deductions for Public Service
Payrolls**

17.128 Duties should be clearly defined and segregated, and responsibilities and authority should be clearly established and documented in the Central Pay Division.

For the next year or more, conversions of pay accounts to the replacement Regional Pay System will be progressing on a monthly basis and staff re-assignments will be made frequently. Paralleling this conversion, job descriptions within the Central Pay Division are being revised and implemented in keeping with the changes of responsibilities and segregation of duties necessitated by the conversion.

17.129 All procedures should be documented and out-of-date procedures should be updated in the Central Pay Division.

The Central Pay Division is being converted to the Regional Pay system and in our view it is not cost-effective to completely update the procedures and documentation. However, the sensitive activities surrounding the cheque processing functions have been reviewed, and where weakness in control was evident the processes and work flows were changed.

17.130 The use of the Remittance Control Ledger in the Capital Regional Pay Office should be reviewed, and established procedures should be followed to reinstate the Ledger as a control tool.

Agree. Corrective action has been taken.

Recommendations

DSS-Services' Comments

Financial Controls Over the Public Service Superannuation Accounts - Matters Which are the Direct Responsibility of DSS-Services

17.133 DSS-Services should improve financial control over payments to annuitants by reconciling the amounts actually paid with the amounts authorized for payment, and by documenting the computer based systems and related programs.

Agreed. Modifications to the current Annuitant Process are in progress and will be implemented by December 31, 1979. Specifically, control totals on payments authorized during a month will be reconciled to the actual disbursements at regular cheque issue time. New computer based systems are currently under development. As part of this development activity, general documentation has been improved and this will be expanded in greater detail as specifications for the new systems are completed.

Financial Controls Over the Public Service Superannuation Accounts - Matters for Which the Responsibility is Shared by DSS-Services and the Treasury Board

This part is commented on by the Office of the Comptroller General of Canada.

17.139 A focal point of accountability for all transactions affecting the Public Service Superannuation Accounts should be instituted so that all transactions are monitored on a current basis and necessary corrective actions can be recommended to the appropriate departments and participating Public Service Corporations.

Office of the Comptroller General's comment: The matter to be addressed is one of a formal co-ordination mechanism between the policy and administrative responsibilities for the Public Service Superannuation Accounts. The Office of the Comptroller General is presently informally co-ordinating these responsibilities until a means is established to provide this co-ordination on a continuing basis.

Internal Controls in the Receiver General Function

17.149 A review should be made of the procedures followed in verifying signatures with a view to reducing the need for the present volume of signatures.

The present signature verification process is being examined with the objective of improving existing procedures and reducing the volume of specimen signature cards which have to be held.

Recommendations

DSS-Services' Comments

- | | | |
|---------------|---|--|
| 17.150 | Where client-prepared data is altered by District Services Offices or Source Data Control, the reasons for doing so should be documented for management review. | Of client-prepared data, only batch headers are altered in order to expedite payment. Procedures related to this matter will be clarified to provide the necessary management trail. |
| 17.151 | DSS-Services should suggest amendments to the Account Verification and Payment Requisition Regulations to reduce the variety of cheque requisition formats. | Standards for cheque requisition formats were set by DSS-Services in 1976 and there are now only 100 formats in use compared to 500 before. Efforts are on-going to reduce the number still further. However, it is believed that overly stringent amendments to the regulations would restrict the present multiple use of the documents in departments and so add to their administrative and control workload, more than offsetting any advantages to DSS-Services. |
| 17.152 | The Government of Canada Accounting Branch and the Operations Branch should strengthen their procedures to ensure timely follow-up and explanation of differences between cheques issued and accounted for. | This recommendation is being implemented. |
| 17.153 | Procedures for reconciling cheques issued with cheques redeemed should be strengthened to ensure that differences are explained on a timely basis and unexplained differences are not carried forward beyond two years. | We are currently examining this situation as part of a total reconciliation project. |

**OBSERVATIONS ON THE FINANCIAL STATEMENTS
AND OPERATIONS OF CROWN CORPORATIONS
AND OTHER ENTITIES**

OBSERVATIONS ON THE FINANCIAL STATEMENTS AND OPERATIONS OF CROWN CORPORATIONS AND OTHER ENTITIES

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OBSERVATIONS ON THE FINANCIAL STATEMENTS AND OPERATIONS OF CROWN CORPORATIONS AND OTHER ENTITIES

18.1 Introduction. This Chapter comments on significant qualifications and other matters included in our audit reports on the annual financial statements of Crown corporations and other entities. Chapter 8 of this Report comments on the financial management, control and accountability of Crown corporations.

18.2 The Auditor General audits and reports on the annual financial statements of 34 of the agency and proprietary Crown corporations listed in Schedules C and D to the Financial Administration Act. Audits of these corporations are carried out and reported on in accordance with the provisions of Section 77 of the Act. This section, amongst other things, requires the auditor to "... call attention to any other matter falling within the scope of his examination that in his opinion should be brought to the attention of Parliament."

18.3 The Auditor General also audits and reports on the annual financial statements of 50 other separate entities. These entities include departmental Crown corporations listed in Schedule B to the Act, and boards, commissions, territorial governments and their agencies, separate funds and special accounts such as the Exchange Fund Account, the Canada Pension Plan Account and the Unemployment Insurance Account.

18.4 In previous years, Treasury Board policy required that the Auditor General express opinions on the financial statements of all revolving funds. However, the Treasury Board has changed its policy, and this year the requirement was discontinued. We still audit revolving fund accounts as part of our departmental audits, although we do not provide separate opinions on their annual statements. An exception was made, however, at the request of the Deputy Minister of Transport for the financial statements of the Airports Revolving Fund on which we issued a separate audit report.

18.5 Our audit reports on current year financial statements include qualifications to our opinions where we found:

- deficiencies or inconsistencies in the application of stated accounting policies;
- major uncertainties which were unresolved at the balance sheet date; and
- significant transactions that were not within the statutory powers of a corporation.

We have also called a number of matters to Parliament's attention in our reports on Crown corporations and other entities. Paragraphs 18.6 to 18.18 describe these matters, and elaborate on the more significant qualifications in our audit opinions.

18.6 Airports Revolving Fund - Failure to record termination benefits.

Employees of the Canadian Air Transportation Administration who operate the airports financed through the Airports Revolving Fund receive termination benefits on separation or retirement. No provision for the benefits accruing to these employees as at March 31, 1979, has been made in the accounts nor has the liability been calculated. Our audit report to the Minister of Transport on the Airports Revolving Fund financial statements was qualified accordingly.

18.7 Airports Revolving Fund - Uncertainty of realization of capitalized

development costs. All development costs including those for interest, planning and site preparation associated with the Pickering Airport Project have been capitalized in the accounts of the Airports Revolving Fund. These costs which amounted to \$67.4 million at March 31, 1979 and included \$12.7 million for the current year were capitalized on the assumption that they would be recoverable from the future operations of the airport. Pursuant to a Cabinet decision, construction has been indefinitely deferred and accordingly it is no longer appropriate to continue to capitalize and reflect these costs as an asset. Had these costs not been capitalized, assets and retained earnings would have been decreased by \$67.4 million and the loss for the year would have been increased by \$12.7 million. Our audit report to the Minister of Transport on the Airports Revolving Fund financial statements was qualified accordingly.

18.8 Atomic Energy of Canada Limited - Uncertainty as to disposition of the

La Prade heavy water plant. In 1974, Atomic Energy of Canada Limited commenced construction of a 725 metric-ton-per-year heavy water plant near Gentilly, Quebec. Capital expenditures to March 31, 1979, amounted to \$378.7 million (including \$57.6 million of interest on loans). Financing was provided by advances from the Government of Canada of \$353.6 million bearing interest at a weighted average rate of 9.44%.

Pursuant to a broad ranging expenditure restraint program and reflecting the reduction in the medium-term demand for heavy water, the Government of Canada announced in August 1978, that it planned to suspend construction of the La Prade heavy water plant. Accordingly, the Company suspended construction and is proceeding to mothball the plant in an orderly manner consistent with retention of the asset base. Outstanding commitments and costs to mothball the plant are estimated at \$94 million. The Company has received, subject to certain conditions being met, approval in principle from the Government of Canada for recovery of mothballing costs and suspension of interest on advances during the mothball period. The Company has discussed the final disposition of the asset and related advance with the Government of Canada, and pending a final decision by the Government, the Company has retained the asset and the advance at their book values.

As the ultimate disposition of the plant and the related advance is dependent upon a decision by the Government of Canada, my report to the Minister of Energy, Mines and Resources on the financial statements of the Company for the year ended March 31, 1979, was qualified accordingly.

18.9 Atomic Energy of Canada Limited - Uncertainty as to adequacy of provision for losses on Argentine contract. Atomic Energy of Canada Limited, together with a partner, has contracted to deliver in 1981, a 600 megawatt (electric) nuclear generating station in Argentina. In general, the contract stipulates a firm price subject to adjustment for escalation up to certain ceilings.

In its 1977 accounts the Company provided for an estimated loss of \$130 million on this project. In view of an extended work schedule under conditions of rapid inflation in Argentina combined with the foreign exchange rate policy of that country, determination at this time of potential losses on the Argentine portion of the contract cannot be made with certainty. The Company has initiated discussions with the customer, primarily with a view to providing protection against such losses. Management of the Company believes that these discussions will be successful and, based on this and current forecasts, is of the opinion that the provision for loss on this project recorded in 1977 remains appropriate at March 31, 1979.

Because of the uncertainty of the Company successfully asserting its claim for protection against the unpredictable effects of Argentine monetary conditions, our audit report to the Minister of Energy, Mines and Resources on the Company's financial statements for the year ended March 31, 1979, was qualified.

18.10 Canada Employment and Immigration Commission - Benefit and Overpayment System. The report dated September 28, 1979 to the Minister of the Canada Employment and Immigration Commission on the financial statements of the Unemployment Insurance Account for the year ended December 31, 1978, stated that the Commission has paid benefits to claimants who were not entitled to them. The report also indicated that the Commission has underpaid benefits to other claimants. In a significant number of instances, it has not adhered to all its administrative procedures in establishing the continuing eligibility of claimants.

Background and scope of examination. During 1978, the Benefit and Overpayment System (BNOP system) paid approximately \$4.5 billion in unemployment insurance benefits to about 2.8 million claimants.

Certain systems weaknesses had been identified in previous years. Accordingly, the Office of the Auditor General, with the co-operation and participation of the Commission's personnel, had conducted studies to quantify, through properly designed tests of actual benefits paid, the amount of any error in benefits paid which might have occurred as a result of such weaknesses. The results of these tests were reported in our 1977 Report (paragraph 17.10) and in our 1978 Report (paragraphs 14.106 to 14.145).

In the audit of the 1977 payments, we determined that a significant amount of overpayments was attributable to employers incorrectly preparing the "Record of Employment" document which the Commission uses to determine the benefit payment. We therefore extended our procedures for the audit of the 1978 payments to include a detailed verification with employers of the information included on the Record of Employment. These steps included verifying in detail the amount an employer paid to the claimant by pay period, monies paid on termination (vacation pay, bonus, etc.) and the number of insurable weeks.

As part of our 1978 audit, an additional level of review was incorporated into the audit process. The Commission also provided personnel from various branches who reviewed and concurred with the results of the audit, in instances where it was felt that the error rested, in part, on judgemental factors.

Summary of findings. In summary, the examination results which are presented in Exhibit 18.1 demonstrate that:

- the Commission's regular control activities did not detect benefit overpayments in 1978 which were estimated to be \$290 million (identifiable overpayments of \$223 million lying within a possible range of \$171 million to \$269 million, and potential overpayments of \$67 million lying within a possible range of \$34 million to \$108 million);
- the Commission's regular control activities did not detect benefit underpayments in 1978 which were estimated to be \$67 million (identifiable underpayments of \$65 million lying within a possible range of \$46 million to \$103 million and potential underpayments of \$2 million lying within a possible range of \$1 million to \$24 million); and
- significant control weaknesses in the BNOP system which have been identified in prior years, continue to exist.

Results of sample verification and related procedures. The Audit Office selected a statistical sample of 1,043 claimants to whom benefits had been paid during 1978 and performed a verification of their claims. It also carried out a review and evaluation of internal control procedures in 30 of the Commission's local offices.

This verification indicated that some of the Commission's controls are operating effectively and that a substantial dollar value of benefit overpayments (in 1978 approximately \$70 million) is being detected regularly and, in most cases, recovered. However, the results of our specific tests also indicated that during 1978 a significant additional amount of benefit overpayments and underpayments escaped detection by the Commission, and that a further significant number of claims were subject to deviations from laid-down procedures.

The increase in the estimate of overpayments which escaped detection by the Commission (from \$142 million in 1977 to \$290 million in 1978) and estimated underpayments (from \$10 million in 1977 to \$67 million in 1978) has

CANADA EMPLOYMENT AND IMMIGRATION COMMISSION
UNEMPLOYMENT INSURANCE - BENEFIT AND OVERPAYMENT SYSTEM
SUMMARY OF SAMPLE RESULTS

	1978 Benefit Payments				1977 Benefit Payments			
	Instances sample of 1043	Estimate of value of errors detailed in such claims (in millions of dollars)			Instances sample of 1033	Estimate of value of errors detailed in such claims (in millions of dollars)		
		Most likely value	Probable range	Possible range		Most likely value	Probable range	Possible range
(a) Overpayments								
(i) Identifiable	494	223	201-260	171-269	253	125	114-138	93-161
(ii) Potential	39	67	53-78	34-108	9	17	10-25	5-39
(b) Underpayments								
(i) Identifiable	270	65	57-93	46-103	31	10	1-25	1-29
(ii) Potential	7	2	1-23	1-24	-	-	-	-
(c) Follow-up inadequacies	359	----not quantifiable----			257	----not quantifiable----		
(d) Compliance deviations	225	----not quantifiable----			453	----not quantifiable----		
(e) Abuse possibilities		----not quantifiable----				----not quantifiable----		
Notes:								
1. The "most likely value" represents the best estimate as projected from our sample results. This estimate is subject to imprecision, however, as indicated by the breadth of the probable and possible ranges discussed below and the particular "most likely value" itself should not therefore be given undue weight. The degree of imprecision indicated by these ranges is a reflection of the relatively limited sample size (1,043) but, in our opinion, was the best that was economically feasible in view of the audit time per sample item and is, we believe, at least sufficient to distinguish between trivial and material incidences of overpayments.								
2. "Probable range" refers to upper and lower bounds on statistical estimates at an 80% confidence level.								
3. "Possible range" refers to upper and lower bounds on statistical estimates at a 99% confidence level.								

resulted primarily from the use of more detailed audit procedures in the verification of the Record of Employment. We estimate that \$108 million of the increase in estimated overpayments and \$52 million of the increase in estimated underpayments from 1977 to 1978 resulted from the use of the more detailed audit procedures and are attributable to errors in data received by the Commission from employers.

It should be noted, that a certain degree of imprecision is associated with the results of any statistical sample, because we have not audited the entire population of approximately 2.8 million claimants. Our estimate of the amount of overpayments and underpayments in the total population, projected from our sample results, is a "most likely value" of \$290 million overpayments and \$67 million underpayments. The imprecision of these "most likely values" is indicated by the size of the probable and possible ranges noted in Exhibit 18.1. The degree of imprecision indicated in these ranges reflects the limited sample size (which we felt to be appropriate under the circumstances) and is sufficient to distinguish between trivial and non-trivial incidences of monetary error.

Analysis of sample verification. For purposes of the testing procedures we defined an overpayment as any benefit paid which, under existing legislation the claimant should not have received, and which would have been legally recoverable had it been discovered and dealt with immediately. An underpayment was defined as any benefit which under existing legislation the claimant should have received and which would have been legally payable had it been discovered and dealt with immediately.

We classified as *identifiable overpayments* and *identifiable underpayments* any claim which the available evidence proved conclusively contained a monetary error. Summary results appear in Exhibit 18.1 lines (a)(i) and (b)(i) respectively.

Potential overpayments or potential underpayments were classified as any claim which the available evidence demonstrated persuasively, although not conclusively, contained an overpayment or underpayment. Summary results appear in Exhibit 18.1 lines (a)(ii) and (b)(ii) respectively.

Follow-up inadequacies represent weaknesses in implementing Commission policies requiring that certain procedures be followed in monitoring the claimant's continuing eligibility to receive benefits. The Commission relies, to a certain extent, on activities within the Canada Employment Centres to assist in this monitoring effort. In the sample of 1,043 claims, 359 not included in results already reported above were subject to follow-up inadequacies, i.e. monitoring efforts which were considered to be inadequate. The effect of projecting these 359 cases is that, within the \$4.5 billion population, claims whose gross value was approximately \$1.4 billion (\$950 million in 1977), were probably subject to similarly deficient follow-up of the claimant's continuing eligibility (line (c) in Exhibit 18.1). Some portion of this amount could therefore represent an error in benefits paid.

A *compliance deviation* was defined as any case where, although it was felt a related monetary error did not occur, a prescribed procedure was not

adhered to. Within the sample of 1,043 claims, 225 not included in results already reported above were subject to compliance deviations although they did not (as far as can be determined) contain errors in benefits paid. The effect of projecting these 225 claims is that, within the \$4.5 billion, \$900 million (\$1.5 billion in 1977) were probably subject to similar deviations (line (d) in Exhibit 18.1).

As we noted in our 1978 Report, we identified a number of cases which, while perhaps not technically overpayments, suggest the possibility of abuse. The term *abuse* is used to connote discrepancy with the apparent intent of the Act and in particular its insurance objective and its eligibility requirements of active job search. That is, although these cases may not strictly be in violation of the provisions of the Unemployment Insurance Act prevailing at the time, one can seriously question whether they correspond to the Act's intent.

From the requirements of the Act, it would seem reasonable to infer that the intent of the law is to insure a contributor against loss of earnings during temporary unemployment while he is actively seeking and, within limits, until he obtains other suitable employment. However, as was the case in our audit of the 1977 payments, the review conducted revealed situations in which the intent of the Act appears not to have been followed.

For example, there are claimants who would not otherwise be entitled to receive benefits except for their participation in federal and provincial job creation programs, since they have not been in the past and may not seriously intend to be in the future, permanently attached to the labour force (or regularly contributing unemployment insurance premiums).

The effect of this potential for abuse is not to create legal overpayments which could be recovered, but rather to permit disbursement of benefits in circumstances to which the Act may not have been intended to apply. Because these abuses are related to ambiguities, omissions, faulty interpretations or unintended applications of the law and regulations, any value assigned to their possible magnitude would be highly arbitrary. Thus, it would not be meaningful to attempt to estimate even the gross dollar value of claims possibly subject to such abuse.

System weaknesses. As noted in our 1977 and 1978 Reports, control deficiencies were identified in the areas of the validation of initial and continuing claims data and the control of documents and input data. Our review of 30 local offices indicated that these weaknesses continue to exist in the Benefit and Overpayment System. As a result of these weaknesses, overpayments, erroneous payments, or benefits obtained through fraud continue to be a possibility. Our tests indicated that an estimated \$96 million of overpayments included in those reported in the Exhibit resulted in large part from the existence of these deficiencies in control.

It would be unrealistic to expect any practicable control system to prevent or detect all actual or potential errors in benefits paid. The cost of additional prevention or detection procedures beyond a certain level could well exceed the value of the reduction in overpayments achieved. Therefore, in such situations a cost-effective control system must necessarily stop short of 100% control.

Nonetheless, as evidenced by the results of the study, there is a need for changes to be incorporated into the system to prevent and detect certain overpayment and underpayment conditions indicated by our tests. We found the Commission to be interested in improving its control where possible and it has begun to address these weaknesses.

Corrective measures undertaken by the Commission. As a result of a detailed review of the current year's examination and that of the two previous years, the Commission has undertaken steps to correct the systems weaknesses.

In May 1979, the Commission began to implement a new Record of Employment form on which employers are requested to provide details relating to insurable earnings and duration of employment which the Commission uses to determine the amount and the duration of benefit payments. This change should reduce the incidence of errors in data supplied by employers.

As we indicated in our 1978 Report, the Commission is developing and currently field testing an On-Line Benefit Pay System. Results of preliminary reviews by the Commission are encouraging in that error rates in claims processing under the original pilot project have been significantly reduced.

The Commission, with voluntary participation of employers, continues to conduct a study on the most appropriate method of obtaining information on employees hired. The Commission will match this information with unemployment insurance claimant's files to determine if a claimant is employed while receiving benefits.

The Commission is continuing to seek ways to improve financial controls and information received as well as to verify more effectively the initial and continuing eligibility of claimants. This Office will continue to monitor the results of these changes.

18.11 Canada Pension Plan - Funding of the Plan. In accordance with the provisions of the Canada Pension Plan, the financial statements show the transactions through the Canada Pension Plan Account and the Canada Pension Plan Investment Fund, and changes in the balances of these accounts for the year ended March 31, 1979. The Plan operates on a current basis with the benefits being paid out of current contributions. We have noted in our audit report to the Minister of National Health and Welfare that these statements of transactions are not intended to nor do they purport to show the adequacy of the balance in the Canada Pension Plan Account to meet, on an actuarial basis, the future obligations of the Canada Pension Plan.

The following information is provided in Note 2 to the financial statements:

"When the Canada Pension Plan was introduced in 1966, the combined employer-employee contribution rate was set at 3.6% of the Contributory Earnings with the understanding that this would be more than

sufficient to meet the costs of benefits and administration for a certain period of time, but not indefinitely. In the initial years, a fund would be built up from which resources would be made available to provinces as loans. However, since the inception of the Plan, it has been recognized that the 3.6% contribution rate would need to be raised at some point in the future.

Under the Canada Pension Plan legislation, the Chief Actuary of the Department of Insurance is required to prepare an actuarial report on the operation of the Act and the state of the Canada Pension Plan account at least once every five years. The latest quinquennial report was tabled in the House of Commons on December 18, 1978. That report indicated that if no changes were made to the combined employer-employee contribution rate of 3.6%, the annual cost of benefits and expenses would exceed the amount of annual contributions by the year 1985.

After 1985, a gradually increasing proportion of the interest on investments would be needed to finance pension benefits and administrative costs, and no further funds, apart from the reinvestment of a portion of interest owed to the Fund, would be available to the provinces as loans. The Fund would continue to grow until 1992 when all of the interest would be needed to meet payments. If the increase in the contribution rate were delayed beyond 1992 it would become necessary to start recalling loans to the provinces, and by the year 2003, the fund would be exhausted.

The report also projected the future contribution rates which would be required to raise enough money in each year to pay for benefits and administrative expenses. On the basis of the actuarial assumptions made in the report, those rates would have to rise gradually from the current combined contribution rate of 3.6% to 3.64% in 1985, to 4.57% by 1990, to 5.53% by 2000, and to 8.62% by 2025.

The Chief Actuary estimated that if principles of 'actuarial funding' were applied to the Canada Pension Plan, an additional \$81.3 billion would have to be invested in the Fund at December 31, 1977, to provide sufficient funds to pay the future benefits of all contributors and former contributors to the Plan at that time. The Chief Actuary also estimated, based on the same assumptions made in the December 31, 1977 report, except for a short deferral in the decline of the rates of interest on new investments, that if the current contribution rate remains unchanged, the additional amount of \$81.3 billion required to pay all future benefits would increase by approximately \$7 billion per year in 1978 and 1979."

We first drew the attention of Parliament to the Canada Pension Plan projected deficiency in Paragraph 17.6 of our 1977 Report. In accordance with a commitment made by our Office at a meeting of the Standing Committee on Public Accounts held on June 8, 1978, we retained the services of independent

actuaries to review the Statutory Actuarial Report which was tabled on December 18, 1978. In the opinion of these independent actuaries, based on their examination of the report, the assumptions taken in their entirety, are reasonable and appropriate and the methodology is appropriate and correct. Further, it is the independent actuaries' opinion that the report presents fairly the future operation of the Canada Pension Plan Account and the emerging revenues, benefit payments and expenses of administration.

The following information has also been provided in Note 2 to the financial statements:

"While the Canada Pension Plan is administered by the Government of Canada, the Government does not have exclusive authority to effect changes to the Plan. Under existing legislation, any proposed enactment to alter the general level of benefits or the rate of contributions requires at least a two year and one day period of exposure to Parliament before coming into force, and agreement by at least two-thirds of the ten provinces having an aggregate of not less than two-thirds of the population. In February 1977, the Ministers of Finance and the Provincial Treasurers asked their officials to assess Canada Pension Plan financing issues. The resultant report will, among other things, examine and analyze the economic, social and financial effects of the Canada Pension Plan, and recommend alternative policies to the Finance Ministers and Provincial Treasurers."

18.12 Canadian Arsenals Limited - Failure to capitalize fixed assets and record depreciation. The Company uses fixed assets which cost approximately \$22.7 million. Fixed assets purchased with funds provided from its annual parliamentary appropriation are considered by the Company to be owned by Canada and therefore are not recorded as assets on the Company's balance sheet. The Company does not pay for, and has not determined a fair value for, the use of these assets. In our opinion, fixed assets purchased with funds provided by appropriations should be included as assets on the balance sheet and a corresponding amount should be included under the equity of Canada. Generally accepted accounting principles require capitalized assets to be depreciated over their useful life on a systematic and rational basis, and failure to capitalize these assets and record depreciation creates a distortion in the results of operations for the year, and in the equity of Canada in the Company at March 31, 1979.

Certain fixed assets, mainly land and buildings, were paid for by Canada before the Company was incorporated and are still owned by Canada. Non-inclusion of a charge in the income statement for the use of such assets also distorts the net income for the year.

Our report to the Minister of Supply and Services on the financial statements of the Company for the year ended March 31, 1979, was qualified accordingly.

18.13 Canadian Commercial Corporation - Possible effect on financial position of uncertain outcome of litigation. A contractor began legal action against the Corporation in 1975 as a result of the termination of a portion of a contract. The plaintiff is claiming damages of \$6.8 million, as well as costs and interest at 12% per annum since December 7, 1972. The action is contested, and although management is of the opinion that the Corporation will be successful, the outcome is still uncertain, and any possible adverse effect on the Corporation's financial position will not be known until the litigation has been resolved. As a result of this uncertainty, our audit report to the Minister of Industry, Trade and Commerce and Minister of State for Economic Development on the Corporation's financial statements for the year ended March 31, 1979, was qualified.

18.14 Canadian Dairy Commission - Uncertainty concerning recording of levies. During the year ended March 31, 1979, the Canadian Dairy Commission collected \$10 million in over-quota levies and \$19 million in contingency levies; these amounts were shown as liabilities in the accounts of the Commission. The levies were collected throughout the year based on estimates, but will be assessed based on the actual results of the sixteen-month dairy period ending July 31, 1979. The extent to which levies collected may become revenue to the Commission rather than refundable to producers could not be finally determined at March 31, 1979. Because of this uncertainty our audit report to the Minister of Agriculture on the Commission's financial statements for the year ended March 31, 1979, was qualified.

18.15 Canadian Patents and Development Limited - Inadequacies of the system to verify royalties. The Company makes available to the public, through licensing arrangements, the industrial and intellectual property resulting from publicly funded research and development. Royalties derived from these licensing arrangements represent the Company's principal source of revenue.

Our 1976 Financial Management and Control Study recommended that the Company arrange for independent audits of licensees' financial returns so this royalty income could be properly validated. During 1978-79, the Company requested a number of licensees to supply a certified statement by the licensee's auditor of the amount of royalties due to the Company during the period of the licensee's last annual audit. However, at the time of the audit the Company had not received sufficient response for us to arrive at conclusions on the accuracy of the reported account of royalty income. Since insufficient independent audits were made and since no other formal procedures were applied to verify the collection of the royalties due the Company, reported royalty income could not be verified. Our audit report to the Minister of Industry, Trade and Commerce on the Company's financial statements for the year ended March 31, 1979, was qualified accordingly.

18.16 Jacques Cartier and Champlain Bridges Incorporated - Dependency on future Parliamentary appropriations. Pursuant to Governor in Council approval (PC 1978-3139) dated October 12, 1978, the assets and liabilities of the Jacques Cartier and Champlain Bridges and the Bonaventure Autoroute were transferred,

effective December 1, 1978, from the National Harbours Board to the Jacques Cartier and Champlain Bridges Incorporated. The total liabilities, which included approximately \$38 million of interest in arrears on loans, exceeded the net book value of the assets transferred to the Corporation by approximately \$72.5 million.

A review of the operations indicates that it is doubtful that the Corporation will be able to fully discharge its obligations without future Parliamentary appropriations.

This matter was disclosed in our audit report to the Minister of Transport for the period November 3, 1978 (date of incorporation) to March 31, 1979, as an item that should be brought to the attention of Parliament.

18.17 Loto Canada Inc. - The Loto Select project. Since its incorporation in 1976, Loto Canada Inc. has raised revenues through the sale of \$10 lottery tickets. The Loto Select project announced by the Minister on June 8, 1978, resulted from the Corporation's identification of an opportunity to increase its revenues by introducing a new \$1 computerized lottery. It was recognized that the new game would require a significant financial commitment. The Loto Select project was commenced and contractual arrangements of \$60 million entered into at a time when the federal and provincial governments had not reached agreement with respect to lotteries and prior to any parliamentary review of the continuing role of the Corporation and the distribution of its revenues in the post-1979 period. As a result of a subsequent federal-provincial agreement, dated October 5, 1978, on sharing the lottery market, the Loto Select project was terminated. Termination costs amounted to \$13.8 million of which an amount of \$5.1 million was recovered from the Quebec and Ontario lottery corporations leaving a net cost to Loto Canada of \$8.7 million. The report of the President on the termination, which was tabled in the House of Commons by the Minister of State, Fitness and Amateur Sport on February 21, 1979, outlines the position of the Corporation with respect to Loto Select.

A review of the events leading to the commitment of funds to this project and the subsequent reversal of that decision indicates that the termination costs resulted from the risk inherent in the decision to proceed with the project at a time when the federal and provincial governments had not reached agreement with respect to lotteries, and prior to any parliamentary review of the continuing role of the Corporation and the distribution of its revenues in the post-1979 period.

Our audit report to the Secretary of State of Canada for the year ended March 31, 1979, disclosed this matter as an item that should be brought to the attention of Parliament.

18.18 National Capital Commission - Failure to record depreciation. The Commission charges the entire cost of acquiring or improving capital assets to the National Capital Fund or General Operations in the year of expenditure, rather than providing for annual depreciation on assets susceptible to deterioration and obsolescence over the estimated service period during which the assets produce

revenue or benefit the public. Such assets include parkways, bridges and approaches, recreational facilities, property held for development, administration and service buildings, equipment, furniture and vehicles. Our audit report to the Minister of Public Works on the Commission's financial statements was qualified accordingly.

In 1977 the Commission referred the matter to the Treasury Board to co-ordinate a study of depreciation policy for Crown corporations.

18.19 Crown corporations included in Volume III of the Public Accounts.

We have reported on the financial statements of the following Crown corporations. These financial statements and our reports on them are included in Volume III of the Public Accounts:

- Atlantic Pilotage Authority
- Atomic Energy of Canada Limited
- Canada Deposit Insurance Corporation
- Canadian Arsenals Limited
- Canadian Broadcasting Corporation
- Canadian Commercial Corporation
- Canadian Dairy Commission
- Canadian Film Development Corporation
- Canadian Livestock Feed Board
- Canadian National (West Indies) Steamships, Limited
- Canadian Patents and Development Limited
- Canadian Saltfish Corporation
- Crown Assets Disposal Corporation
- Defence Construction (1951) Limited
- Eldorado Aviation Limited
- Eldorado Nuclear Limited
- Export Development Corporation
- Farm Credit Corporation
- Freshwater Fish Marketing Corporation
- Great Lakes Pilotage Authority, Ltd.
- Jacques Cartier and Champlain Bridges Incorporated
- Laurentian Pilotage Authority
- Loto Canada Inc.
- National Battlefields Commission
- National Capital Commission

National Harbours Board
Northern Canada Power Commission
Northern Transportation Company Limited
Pacific Pilotage Authority
Royal Canadian Mint
St. Lawrence Seaway Authority, The
Seaway International Bridge Corporation, Ltd., The
Teleglobe Canada
Uranium Canada, Limited

18.20 Entities included in Volume I of the Public Accounts. Financial statements for the following entities together with our audit reports on them, are included in Volume I of the Public Accounts under the following Sections:

SECTION 7

Canada Pension Plan Account
Canada Pension Plan Investment Fund
Government Annuities Account
Royal Canadian Mounted Police (Dependants) Pension Fund
Unemployment Insurance Account

SECTION 9

Exchange Fund Account

18.21 Entities included in Volume II of the Public Accounts. Financial statements for the following entities together with our audit reports on them, appear in Volume II of the Public Accounts under the heading of their related departments:

AGRICULTURE

Agricultural Products Board
Agricultural Stabilization Board
Canadian Grain Commission

EXTERNAL AFFAIRS

International Development Research Centre

ENVIRONMENT

Fisheries Prices Support Board

INDUSTRY, TRADE AND COMMERCE

Standards Council of Canada

LABOUR

Canadian Centre for Occupational Health and Safety

NATIONAL HEALTH AND WELFARE

Medical Research Council

PRIVY COUNCIL

Board of Trustees of the Queen Elizabeth II Canadian Fund to Aid
in Research on the Diseases of Children

Economic Council of Canada

SCIENCE AND TECHNOLOGY

Natural Sciences and Engineering Research Council

Science Council of Canada

SECRETARY OF STATE OF CANADA

Canada Council

National Arts Centre Corporation

National Film Board

National Museums of Canada

Social Sciences and Humanities Research Council

TRANSPORT

Airports Revolving Fund

18.22 Entities excluded from the Public Accounts. We also report on the financial statements of the following entities which do not appear in the Public Accounts:

Army Benevolent Fund
Canadian Army Welfare Fund
Canadian Broadcasting Corporation Pension Board of Trustees
Canadian Forces Personnel Assistance Fund
Citizens' Repatriation League Incorporated
Compensation Fund (Yukon Territory)
Eldor Resources Limited
Eldorado Pension Plan (1959)
Government of the Northwest Territories
Government of the Yukon Territory
Grimshaw Trucking and Distributing Ltd.
International Commission for the Northwest Atlantic Fisheries
International Fisheries Commissions Pension Society
Northern Pipeline Agency
Northern Transportation Pension Plan
Northwest Territories Housing Corporation
Northwest Territories Liquor Control System
Northwest Territories Workers' Compensation Board
Parliamentary Restaurant
Pinawa General Hospital
Post Office Guarantee Fund
Royal Canadian Air Force Benevolent Fund
Royal Canadian Mounted Police Benefit Trust Fund
Royal Canadian Mounted Police Fine Fund
Royal Canadian Naval Benevolent Fund
Yukon Housing Corporation
Yukon Liquor Corporation

OTHER AUDIT OBSERVATIONS

OTHER AUDIT OBSERVATIONS

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OTHER AUDIT OBSERVATIONS

Introduction

19.1 In recent years, the annual Report chapters on other audit observations have reported on three types of matters:

- observations on our audit of the Oil Import Compensation Program conducted at the request of the Governor in Council under Section 11 of the Auditor General Act;
- observations on matters raised in previous Reports which have not been adequately dealt with by the Government; and
- observations made for the first time which have not been included elsewhere in the Report.

19.2 The existing follow-up practices require significant time and effort from this Office, the Office of the Comptroller General and the Standing Committee on Public Accounts. In this Chapter, we propose a co-ordinated policy to streamline the process and reduce duplication of effort.

19.3 To assist the Standing Committee on Public Accounts in planning and conducting hearings on the 1978 Report, we asked the six departments and agencies for which comprehensive audits were reported in 1978 to up-date their comments on our recommendations to August 31, 1979. These are reproduced in Appendix E. Appendix F contains two status reports by the Comptroller General to the Chairman of the Public Accounts Committee. The first deals with matters raised in our 1976 and 1977 Reports for which corrective action had not previously been reported by the Government; the other is the Comptroller General's status report on government-wide issues raised in our 1978 Report.

Observations Reported Under Section 11 of the Auditor General Act

Oil Import Compensation Program

19.4 Introduction. In 1974, at the request of the Governor in Council, we undertook a continuing inquiry, under Section 62 of the Financial Administration Act, into the administration of expenditures of the Oil Import Compensation Program.

The Program was administered by the Department of Energy, Mines and Resources until October 31, 1974, and then by the Energy Supplies Allocation Board which reports to the Minister of Energy, Mines and Resources. In 1978, the Energy Supplies Allocation Board was renamed the Petroleum Compensation Board.

Under the Program, importers of crude oil and petroleum products are compensated so as to cushion the Canadian economy from the impact of the large and rapid increases in the price of imported crude oil used in Canada.

19.5 Expansion of the Program. In April 1978, legislative authority was obtained for the imposition of a levy on domestic and foreign petroleum as well as on foreign petroleum products that have been processed, consumed, or sold in Canada. The proceeds from the levy are for the sole purpose of assisting in meeting the cost of paying compensation on designated high-cost domestic petroleum as authorized in Section 72(4) of the Petroleum Administration Act, S.C. 1974-75-76, c. 47. Synthetic crude produced by Syncrude Canada Ltd. and by Great Canadian Oil Sands Limited has been designated as high-cost domestic petroleum.

For administrative purposes, the levy and compensation payments under Section 72(4) are handled separately in the Petroleum Compensation Revolving Fund.

19.6 Summary of transactions. A summary of appropriations and expenditures for the six years to March 31, 1979, is as follows:

<u>Fiscal Year</u>	<u>Appropriation</u> (000)	<u>Expenditures</u> (000)
1973-74	\$ 240,000	\$ 157,000
1974-75	1,165,000	1,162,000
1975-76	1,685,000	1,582,000
1976-77	1,410,000	945,000
1977-78	925,000	925,000
1978-79	631,000	628,000
	<u>\$ 6,056,000</u>	<u>\$ 5,399,000</u>

The expenditures for 1978-79, amounting to \$628 million, exclude refunds resulting from prior year claim revisions. This year for the first time, such refunds, totalling \$49 million, were treated as non-tax revenue. If the same accounting treatment had been adopted in 1977-78, non-tax revenue and vote expenditures would have amounted to \$12 million and \$937 million respectively.

The total volume of foreign crude oil imported in the fiscal year ended March 31, 1979, decreased by 25 per cent to approximately 146 million barrels (23 million cubic meters) and the basic rate of compensation paid per barrel

decreased by 56 per cent from \$2.95 to \$1.30 (Canadian). However, as crude oil imports are paid in U.S. dollars, the basic rate is adjusted to reflect the difference in exchange between U.S. and Canadian dollars. On average, this exchange rate was approximately \$1.00 per barrel higher than in the previous year. Total net compensation paid decreased by \$346 million as a result of these three factors.

The status of the Petroleum Compensation Revolving Fund after the nine months ending March 31, 1979, is as follows:

<u>Fiscal year</u>	<u>Levy</u> (000)	<u>Expenditures</u> (000)	<u>Surplus</u> (000)
1978-79	\$88,000	\$ 24,000	\$ 64,000

The levy on domestic and foreign petroleum commenced in July 1978 while payments to first users of designated high-cost petroleum began in August 1978. Payments were significantly below original projections due to lower than forecasted production of synthetic crude. As a result, a temporary surplus of \$64 million was built up in the fund during the nine months ended March 31, 1979.

19.7 Observations arising from our examination. The following significant items have come to our attention during the course of our examinations:

- *Special freight compensation for cargoes lightened in the Caribbean en route to Canada.* In the 1978 annual Report, it was noted that \$2.2 million of excessive freight compensation, paid to two oil importers on cargoes transshipped in the Caribbean, had not been recovered as the Energy Supplies Allocation Board was awaiting the outcome of legal action taken by a third oil company involved.

The Board has won two legal actions but expects a further appeal to be made. As a result, recovery has yet to be initiated on the \$2.2 million overpayment made during 1974 and 1975.

- *Established method of deducting oil exports changed for one oil importer.* When imported crude is subsequently exported, the oil importer must refund the oil import compensation previously received. We noted one case where the Petroleum Compensation Board allowed an oil importer to carry forward an excess of exports over imports of one month to the following month for deduction from new compensatory crude imports. In our view, this is not within the meaning of the regulations as exports, as much as possible, are to be matched to related imports and therefore any excess must be carried back instead of forward. Because of a change in the rate of compensation at the time of this transaction, the position adopted by the Board resulted in payment of \$3 million more in compensation to the oil company.

- **Control of oil exchanges.** In 1978-79, the National Energy Board approved a number of exchanges of western Canadian crude oil and crude oil imported into eastern Canada. The effect of these exchanges is that crude oil may be exported to the United States of America from western Canada without payment of the applicable export charge if a similar quantity of crude oil is imported into eastern Canada without the receipt of import compensation.

Procedures have been developed by the National Energy Board to ensure that the required amount of replacement crude oil is imported into eastern Canada, but the Petroleum Compensation Board's staff have not developed procedures to ensure that oil import compensation has not been paid on these replacement crude imports.

19.8 Audit scope. The Petroleum Compensation Board, by virtue of its policy and program regulations, has recognized the need to have some audit work performed on all claims submitted for compensation and on all petroleum production levy payments received. Accordingly, the Board has made arrangements with independent auditors, generally the claimants' shareholders' auditors, to confirm that the supporting documentation provided to the Board by the oil companies agrees with documentation recorded in the records of such oil companies and to conduct certain other specific tests. The Board's staff performs similar audits on claims of small importers and on all claims under the new high cost domestic petroleum program. The petroleum levy, on the other hand, is audited by the audit staff of the Department of National Revenue - Customs and Excise, pursuant to an Order in Council under Section 5(3) of the Energy Supplies Emergency Act, S.C. 1973-74, c. 52.

We have examined all audit reports received from the claimants' auditors by the Petroleum Compensation Board up to June 12, 1979. Still to be reported on by the claimants' auditors are claims totalling \$763 million as per the following:

	Total Compensation Payments (000)	Compensation Paid but not Reported Upon (000)	Percentage Not Reported Upon
1977-78	\$ 925,000	\$ 184,000	20%
1978-79	579,000	579,000	100%
	<u>\$ 1,504,000</u>	<u>\$ 763,000</u>	

In addition, some \$2 million in small importers' claims have not been audited as at March 31, 1979.

In the first year of operation, ending March 31, 1979, no audits were performed on designated high-cost domestic petroleum claims or on the petroleum levy.

In our opinion, subject to the audit of the compensation payments and petroleum levy referred to in the preceding paragraphs disclosing no significant discrepancies, and subject to the matters referred to above in connection with:

- special freight compensation for cargoes lightened in the Caribbean en route to Canada,
- established method of deducting oil exports changed for one oil importer, and
- control of oil exchanges,

payments in the fiscal year ended March 31, 1979, have been properly processed and in conformity with applicable legislation, regulations and guidelines.

19.9 Matters previously reported and now resolved. In the 1978 Report, certain matters were raised which required action or clarification. The following is the status of each of these items:

- *Legal action for reversal of a Board decision.* An importer had initiated legal action for the review and reversal of a Board decision involving bunker fuel oil sold for use by foreign registered vessels involved in the coastal trade of Canada prior to March 12, 1975. The case has been heard by the Federal Court of Canada and a ruling made in favour of the Board. The oil importer did not appeal the decision.
- *Authorization of interest payments.* During 1977-78, two importers claimed approximately \$3.1 million of interest charged by host governments on the retroactive aspects of their participation in the ownership of the oil producing companies. We had been unable to obtain adequate documentation in support of such interest. Invoices to cover these amounts have now been received and approved by the Board.

19.10 Audit of price restraint. Since commencement of the Oil Import Compensation program on January 1, 1974, eligible importers of foreign crude have been required to maintain prices of products derived from crude at those levels existing at the end of 1973, except for those increases in selling prices authorized from time to time by the Minister of Energy, Mines and Resources that resulted from rising non-crude costs and from the decrease in the rate of compensation that followed the allowed increases in western Canadian crude oil prices. However, with the expiry of the Anti-Inflation Program on December 31, 1978, there is no further need for the Minister to authorize selling price increases, as the petroleum products industry is no longer under mandatory federal govern-

ment price controls. Nevertheless, the Minister has strongly urged petroleum companies to exercise all possible restraint in recovering increased costs in their selling prices.

The Petroleum Compensation Board will continue monitoring the price behaviour of oil companies as provided for in the regulations and, in this regard, receive the same price and cost information from the oil importers.

In addition to our audit work on the initial collection and examination of data at the oil companies, we have audited the data collected by the Board from September 1974 to March 31, 1979, and are satisfied that price levels for the period to the end of the anti-inflation guidelines did not exceed price levels prevailing in January 1974 adjusted for allowable cost increases.

Observations Reported Under Section 7 of the Auditor General Act

Observations on Matters Raised in Earlier Reports

19.11 Acquisition of Radio Engineering Products Limited as satisfaction for debts to the Crown. Our 1972 Report (paragraph 101) described the circumstances which led to the acquisition of Radio Engineering Products Limited in 1972 as satisfaction for debts of \$4.3 million due to the Crown. Our 1978 Report (paragraph 22.15) summarized subsequent events which led the company to file a voluntary declaration of bankruptcy in 1975, when the indebtedness had increased to \$6 million.

The Trustee in Bankruptcy has informed us that he had \$448,000 on deposit at March 31, 1979, and that the indebtedness to the Crown was still outstanding.

19.12 Questionable aspects of investment in jointly-owned and controlled company. Our 1978 Report (paragraph 21.8) drew attention to questionable aspects of an investment of \$5 million by the Department of Regional Economic Expansion in Mainland Investments Limited (previously called Metropolitan Area Growth Investments Limited). This Company is jointly-owned and controlled by Canada and the Province of Nova Scotia.

Our review this year disclosed that the Company had settled the legal action which resulted from the company foreclosing a \$5.5 million mortgage loan by taking possession of the security, a cruise ship. Also, in October 1979, the Company contracted to sell the cruise ship for \$3.5 million. However, the following matters which we reported last year are still unchanged:

- Nova Scotia's unilateral action in deferring \$6 million of its investment commitment of \$15 million has not been confirmed by amending the agreement between the Department and the Province; and

- operations are still suspended with no decision on the Directors' recommendation to wind up the Company.

Other Audit Observations Under Section 7 of the Auditor General Act

19.13 Inadequate procedures for acquisition of broadcast stations. As part of a plan for an alternative French service in several areas of Quebec, the Canadian Radio-television and Telecommunications Commission (CRTC) insisted that the Canadian Broadcasting Corporation (CBC) establish a second French language television service in Rimouski. In response to the CRTC, the CBC, in October 1976, signed an agreement for \$2 million to acquire all the shares of two private companies operating radio and television stations in Rimouski. After approval of the agreement by the CRTC and the Governor in Council, the CBC completed its purchase in August 1977. At March 31, 1978 the fixed assets of the two companies were recorded in the financial statements of the Corporation on the basis of original cost less depreciation without an appraisal of fair market values. The Corporation wrote off an amount of \$1.2 million of the purchase price of \$2 million. This represented the excess of the purchase price over the book value of the fixed assets acquired.

The procedures followed for the acquisition of these stations were deficient in the following respects:

- A physical count of fixed assets was not carried out before or on the acquisition date to substantiate their existence and value.
- The itemized list of fixed assets attached to the purchase agreement was outdated.
- Cost-benefit studies conducted on the construction of new facilities or the possible expansion of the CBC stations located within 60 miles were not sufficiently detailed to determine properly the feasibility of these alternatives.
- The data used to prepare the financial analysis of profit trends were in part unaudited and were not subject to further study for validity.
- Full legal clearance of title to the lands and buildings was not obtained prior to the acquisition date of the shares of these companies.
- The Board of Directors authorized management to purchase the assets of the stations for a total not to exceed \$3 million, including improvement costs. As of June 30, 1979, a total of approximately \$3.3 million had been spent, and some improvements were still not complete.

The above deficiencies arose even though the Standing Committee on Public Accounts had recommended on June 26, 1975 "... that a far more

hard-headed financial policy is needed by the CBC..." in relation to a previous investment in a wholly-owned subsidiary company, St. Clair River Broadcasting Limited.

The Corporation has recognized the deficiencies in procedures and intends to establish a comprehensive financial policy for the acquisition of broadcast stations. This policy should include a checklist of control procedures to be followed and of basic data to be accumulated.

19.14 Inadequate control over fixed assets. At March 31, 1979, the Canadian Broadcasting Corporation had fixed assets recorded at an original cost of \$577 million, of which \$373 million represented equipment and vehicles. Although many aspects of fixed asset control are divided throughout the Corporation among Engineering Headquarters, Head Office, and the Regions, no one has been held responsible for overall control. This lack of accountability, combined with poor communication, poor documentary control, and an overly complex accounting system, has seriously compromised the ability of the Corporation to maintain and monitor effective control over the identification, recording and safeguarding of fixed assets. This is evidenced by:

- outdated asset records;
- irregular physical counts and reconciliation to central asset records;
- approximately one-third of the Corporation's equipment untagged and not readily identifiable; and
- procedures for recording transfers and other changes to assets not being followed.

Immediate steps should be taken to develop and implement effective accounting and physical control for fixed assets.

The Corporation has recognized the inadequate control over fixed assets and has stated that corrective action is under way.

19.15 Inadequate control over Inshore Fisheries Rehabilitation Program.

The Inshore Fisheries Rehabilitation Program is a four-year program amounting to \$13 million designed to provide facilities and equipment at landing sites in Newfoundland in order to upgrade the quality and value of inshore fish. The program is administered under the Fisheries and Marine Program which now forms part of the Department of Fisheries and Oceans.

Our audit of the Inshore Fisheries Rehabilitation Program at the St. John's, Newfoundland Office of the Department disclosed that there was inadequate control over insulated fish boxes. These boxes cost approximately \$1.2 million and were delivered in 1977-78 and 1978-79. Receiving documentation was not used as a basis for determining payments; claims for boxes damaged in transit

were not submitted promptly; initially, containers were rented to producers without leases; amounts that were eventually billed were not promptly entered and accounted for in the accounts receivable ledger; and there was no asset ledger to help maintain control over the containers.

Under this program, appropriate administrative procedures were not followed for the installation of fish handling facilities throughout Newfoundland and Labrador at an estimated cost of \$3.2 million. Responsibility for installation was transferred to the Canadian Saltpish Corporation acting as administrator for the Department without executing an adequate agreement. Moreover, the Department did not ensure that Treasury Board contract regulations with respect to competitive tenders would be respected by the Corporation. Because no project control cost ledger was maintained to compare actual costs to budget estimates, the Department was unable to monitor and control costs on a project basis.

We were informed that steps have been taken to correct the above problems and to co-ordinate the balance of this program. We will monitor the adequacy of the corrective measures.

19.16 Improper charges to 1978-79 appropriations. Section 30 of the Financial Administration Act permits payments to be made and charged to the appropriations of a fiscal year in the 30 days following its end. The payments must be for work performed or services rendered before year end or of amounts payable before year end under contractual arrangements.

The following payments made by the Department of Indian Affairs and Northern Development were not proper charges to its 1978-79 appropriations in accordance with the provisions of the Financial Administration Act:

- \$596,000 was paid in April 1979 to various school boards in Saskatchewan from the Department's Vote 5, "Indian and Eskimo Affairs - operating expenditures", to cover interim adjustment billings for the calendar year 1978 and interim billings for the period January 1 to March 31, 1979 for tuition fees of native students. Since there are no provisions in the agreements with the school boards for interim adjustment billings of previous years' tuition fees, and as \$534,000 had already been paid to the boards for tuition fees of native students for the period January 1 to March 31, 1979, the amount does not represent a proper charge against the 1978-79 appropriations of the Department.
- A contribution of \$251,000 to an Indian educational institution in Saskatchewan in respect of its operating deficit was made from Vote 5 in April 1979. This was not a proper charge against 1978-79 appropriations since there was no agreement with the institution at the year end covering the payment and the Treasury Board approval for financial support for the institution stipulated that aid would begin in 1979-80.

- To cover the initial cost of the provision of water and sewer services, which an Indian band in Saskatchewan was negotiating with a municipality, the Department paid \$116,000 to the band from Vote 10, "Indian and Eskimo Affairs - capital expenditures", in April 1979. The agreement with the municipality was not concluded until some months later and Treasury Board approval for the payment had not been obtained. The amount was, therefore, not a proper charge against 1978-79 appropriations.

The Department is investigating the circumstances giving rise to these payments having been charged to the 1978-79 fiscal year in order to avoid a recurrence.

Follow-up Policy: A Suggested Approach

Background

19.17 The follow-up of matters raised in previous years' Reports is an integral part of our work. The Standing Committee on Public Accounts has requested that:

- we monitor government action on our recommendations and report progress; and
- we follow-up on certain specific government commitments made to the Committee.

If, in our view, appropriate action by the Government has not been taken, we advise the House of Commons and, whenever possible, provide the reasons given by the government officials concerned.

19.18 The increasing interest of Parliament in improving management control in Government has resulted in extensive follow-up work by the Public Accounts Committee, the Office of the Comptroller General and this Office. As part of its efforts to bring about improvements, the Public Accounts Committee requested extensive progress reports in 1977 and 1978 from individual entities on the implementation of the Financial Management and Control Study recommendations. In March 1979, the Committee sent requests to 20 departments for their comments on the criteria used in the 1978 Study of Procedures in Cost Effectiveness (SPICE) audits and for a report on actions taken to correct problems disclosed. In support of the Committee, the Research Branch of the Library of Parliament provides the Public Accounts Committee with progress reports on action taken on the Committee's recommendations made during each session of Parliament. These progress reports outline the Committee recommendations, the comments of the appropriate central agency and the comments of the responsible department, agency or Crown corporation.

19.19 From 1973 to 1977, the Treasury Board Secretariat annually prepared a progress report for the Chairman of the Public Accounts Committee regarding all issues raised in the Auditor General's annual Report, including information on actions taken by departments, agencies and Crown corporations. In 1978, the Comptroller General advised the Public Accounts Committee in two letters of the actions reported to the Treasury Board Secretariat by departments and Crown corporations on certain of the matters raised in the 1976 and 1977 Reports. These letters are contained in Appendix F to the 1978 Report.

19.20 We have discussed with the Comptroller General the matters still outstanding from the 1976 and 1977 Reports under Section 61(1) of the Financial Administration Act (now included in Section 7 of the Auditor General Act). His report to the Chairman of the Public Accounts Committee on the current status of those matters is contained in Appendix F.

19.21 Regarding the 1978 Report, the Comptroller General has reviewed our observations and recommendations relating to the government-wide issues raised in Chapters 3 to 9 inclusive and Chapter 12. His report on the current status of these matters is also contained in Appendix F.

A Suggested Approach for Follow-up

19.22 The Public Accounts Committee is served by both this Office and the Office of the Comptroller General in matters of follow-up. The objective is to have progress reports placed before the Committee in the most efficient and timely way. This suggests the need for an appropriate division of effort for the follow-up work.

19.23 The Auditor General reports on two types of problems: those that are deemed government-wide, in the sense that they tend to have government-wide impact or appear to be related to or attributable to policies or practices controllable by central agencies of Government; and those problems that are deemed to lie within the control of individual departments or agencies. Some problems are attributable to a combination of central and departmental decision-making.

19.24 In terms of procedures and practice in follow-up, a number of questions arise. For example:

- Is there an adequate process to resolve disagreement over findings and recommendations, or who is responsible for correcting deficiencies?
- Should an audited organization produce separate reports to each of the Public Accounts Committee, the Office of the Comptroller General, and the Office of the Auditor General, or should only one report be necessary?

- Should progress reports be provided regularly or only upon request? If regularly, how often or at what points in time?

The following proposals are intended to launch discussion among the Public Accounts Committee, the Office of the Comptroller General and this Office to achieve an efficient, co-ordinated approach to follow-up of audit observations. They are not meant as a substitute for any independent monitoring action that the Public Accounts Committee and the Office of the Comptroller General may wish to take at their respective levels of responsibility.

19.25 Follow-up procedures: government-wide audit issues. Within a reasonable time after the tabling of each annual Report of the Auditor General, the Comptroller General would send to the Public Accounts Committee written commitment to a plan of corrective action--with deadlines--for those deficiencies that have been agreed upon. If the Government disagrees with our findings and/or recommendations, the written response to the Public Accounts Committee should give the reasons. Annually, the Comptroller General would send to the Public Accounts Committee follow-up progress reports, with a copy to this Office to be included in the Auditor General's annual Report. The absence of adequate progress on a particular problem would also be disclosed in the annual Report.

19.26 Follow-up procedures: audit observations on individual organizations. In this case, responsibility for initiating corrective action rests with the individual department or agency. In 1977-78, the concept of comprehensive auditing of departments and agencies was introduced as the approach this Office would take in discharging its enlarged audit mandate. Follow-up on matters reported by us on a particular entity before its first comprehensive audit will normally be reported as part of the comprehensive audit report, depending on their significance in the context of that report. If the first notice of the weakness occurs in a comprehensive audit chapter of the Report, the department will normally include its formal response and action intentions at the end of the Chapter. In all other cases where we set out audit observations in the Report, the deputy head would provide a written response within a reasonable time after tabling of the Report. The response would incorporate deadlines for corrective action and would be sent to the Public Accounts Committee as well as to this Office.

19.27 At least annually, the deputy head concerned would report progress to the Public Accounts Committee on each matter raised, with a copy to this Office and to the Office of the Comptroller General. Where progress reports are not made or corrective measures appear inadequate to this Office, we would disclose this in the next annual Report.

19.28 The extent of follow-up by this Office or verification of departmental up-date responses on particular departmental matters will be dictated by circumstances and by the significance of the matter to Parliament. The minimum would be a review by the appropriate audit Principal from this Office for reasonableness of the department's or agency's comments and the time taken on action.

19.29 Follow-up procedures: recommendations of the Public Accounts Committee. Depending on the circumstances, responsibility for taking action on recommendations made by the Public Accounts Committee in its reports to the House of Commons rests with central agencies, individual departments, agencies or Crown corporations, or this Office. During the spring of 1979, the Committee's Clerk, assisted by a research officer of the Library of Parliament, obtained comments from the appropriate organizations on actions taken on all the recommendations the Committee made in its formal reports to the House in the 30th Parliament. The results of this survey indicated that in many cases the Committee's recommendations had not been acted upon with appropriate despatch.

19.30 The Committee may wish to give consideration to ways of improving the quality and timing of responses to its formal recommendations. One approach would be to establish a procedure, possibly through amendment of the Standing Orders of the House of Commons, requiring the Government to table a response to each Committee report within a stated period of time, say 30 days after tabling in the House of Commons. Alternatively, such responses could be tabled with the Committee itself. A similar procedure would apply for recommendations requiring action by this Office. Following receipt of these early responses to its reports, the Committee could determine what continuing monitoring actions should apply. This Office could assist in monitoring progress on commitments made and the Committee might wish to seek annual follow-up progress reports from the Comptroller General on behalf of the Government.

Disclosure

19.31 In all cases, the criterion for disclosure as an audit observation is the Auditor General's judgment of the significance of the matter to Parliament. If a matter is judged unequivocally to be of significance to Parliament, it will be reported as an audit observation in the year it is noted by this Office; it would not be deferred until the planned reporting year for that entity under the comprehensive audit and reporting cycle.

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APPENDIX A

AUDITOR GENERAL ACT

25-26 ELIZABETH II

CHAPTER 34

An Act respecting the office of the Auditor General of Canada and matters related or incidental thereto

[Assented to 14th July, 1977]

Her Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:

PART I

SHORT TITLE

1. This Part may be cited as the *Auditor General Act*.

(3) Once having served as the Auditor General, a person is not eligible for re-appointment to that office. Re-appoint-
ment

INTERPRETATION

2. In this Act,
"Auditor General" means the Auditor General of Canada appointed pursuant to subsection 3(1);

(4) In the event of the absence or incapacity of the Auditor General or if the office of Auditor General is vacant, the Governor in Council may appoint a person temporarily to perform the duties of Auditor General. Vacancy

"Crown corporation" has the meaning assigned to that expression by subsection 66(1) of the *Financial Administration Act*;

4. (1) The Auditor General shall be paid a salary equal to the salary of the Chief Justice of the Federal Court of Canada, including any additional salary authorized by section 20 of the *Judges Act*. Salary

"department" has the meaning assigned to that term by section 2 of the *Financial Administration Act*;

(2) The provisions of the *Public Service Superannuation Act*, other than those relating to tenure of office, apply to the Auditor General except that a person appointed as Auditor General from outside the Public Service may, by notice in writing given to the President of the Treasury Board not more than sixty days after the date of his appointment as Auditor General, elect to participate in the pension plan provided for in the *Diplomatic Service (Special) Superannuation Act* in which case the provisions of that Act, other than those relating to tenure of office, apply to him and the provisions of the *Public Service Superannuation Act* do not apply to him. Pension benefits

"registrar" means the Bank of Canada and a registrar appointed under Part IV of the *Financial Administration Act*.

AUDITOR GENERAL OF CANADA

3. (1) The Governor in Council shall, by commission under the Great Seal, appoint a qualified auditor to be the officer called the Auditor General of Canada to hold office during good behaviour for a term of ten years, but the Auditor General may be removed by the Governor in Council on address of the Senate and House of Commons.

(2) Notwithstanding subsection (1), the Auditor General ceases to hold office on attaining the age of sixty-five years.

DUTIES

5. The Auditor General is the auditor of the accounts of Canada, including those relating to the Consolidated Revenue Fund Examination

and as such shall make such examinations and inquiries as he considers necessary to enable him to report as required by this Act.

Idem

6. The Auditor General shall examine the several financial statements required by section 55 of the *Financial Administration Act* to be included in the Public Accounts, and any other statement that the Minister of Finance may present for audit and shall express his opinion as to whether they present fairly information in accordance with stated accounting policies of the federal government and on a basis consistent with that of the preceding year together with any reservations he may have.

Report to House of Commons

7. (1) The Auditor General shall report annually to the House of Commons

- (a) on the work of his office; and
- (b) on whether, in carrying on the work of his office, he received all the information and explanations he required.

Idem

(2) Each report of the Auditor General under subsection (1) shall call attention to anything that he considers to be of significance and of a nature that should be brought to the attention of the House of Commons, including any cases in which he has observed that

- (a) accounts have not been faithfully and properly maintained or public money has not been fully accounted for or paid, where so required by law, into the Consolidated Revenue Fund;
- (b) essential records have not been maintained or the rules and procedures applied have been insufficient to safeguard and control public property, to secure an effective check on the assessment, collection and proper allocation of the revenue and to ensure that expenditures have been made only as authorized;
- (c) money has been expended other than for purposes for which it was appropriated by Parliament;
- (d) money has been expended without due regard to economy or efficiency; or
- (e) satisfactory procedures have not been established to measure and report the

effectiveness of programs, where such procedures could appropriately and reasonably be implemented.

(3) Each annual report by the Auditor General to the House of Commons shall be submitted to the Speaker of the House of Commons on or before the 31st day of December in the year to which the report relates and the Speaker of the House of Commons shall lay each such report before the House of Commons forthwith after receipt thereof by him or, if that House is not then sitting, on the first day next thereafter that the House of Commons is sitting.

Submission of report to Speaker and tabling in the House of Commons

8. (1) The Auditor General may make a special report to the House of Commons on any matter of pressing importance or urgency that, in his opinion, should not be deferred until the presentation of his annual report.

Special report

(2) Each special report of the Auditor General to the House of Commons made under subsection (1) or 20(2) shall be submitted to the Speaker of the House of Commons and shall be laid before the House of Commons by the Speaker of the House of Commons forthwith after receipt thereof by him, or if that House is not then sitting, on the first day next thereafter that the House of Commons is sitting.

Submission of reports to Speaker and tabling in the House of Commons

9. The Auditor General shall

Idem

- (a) make such examination of the accounts and records of each registrar as he deems necessary, and such other examinations of a registrar's transactions as the Minister of Finance may require; and
- (b) when and to the extent required by the Minister of Finance, participate in the destruction of any redeemed or cancelled securities or unissued reserves of securities authorized to be destroyed under the *Financial Administration Act*; and he may, by arrangement with a registrar, maintain custody and control, jointly with that registrar, of cancelled and unissued securities.

10. Whenever it appears to the Auditor General that any public money has been improperly retained by any person, he shall forthwith report the circumstances of the case to the President of the Treasury Board.

Improper retention of public money

Inquiry and report

11. The Auditor General may, if in his opinion such an assignment does not interfere with his primary responsibilities, whenever the Governor in Council so requests, inquire into and report on any matter relating to the financial affairs of Canada or to public property or inquire into and report on any person or organization that has received financial aid from the Government of Canada or in respect of which financial aid from the Government of Canada is sought.

Advisory powers

12. The Auditor General may advise appropriate officers and employees in the public service of Canada of matters discovered in his examinations and, in particular, may draw any such matter to the attention of officers and employees engaged in the conduct of the business of the Treasury Board.

ACCESS TO INFORMATION

Access to information

13. (1) Except as provided by any other Act of Parliament that expressly refers to this subsection, the Auditor General is entitled to free access at all convenient times to information that relates to the fulfilment of his responsibilities and he is also entitled to require and receive from members of the public service of Canada such information, reports and explanations as he deems necessary for that purpose.

Stationing of officers in departments

(2) In order to carry out his duties more effectively, the Auditor General may station in any department any person employed in his office, and the department shall provide the necessary office accommodation for any person so stationed.

Oath of secrecy

(3) The Auditor General shall require every person employed in his office who is to examine the accounts of a department or of a Crown corporation pursuant to this Act to comply with any security requirements applicable to, and to take any oath of secrecy required to be taken by, persons employed in that department or Crown corporation.

Inquiries

(4) The Auditor General may examine any person on oath on any matter pertaining to any account subject to audit by him and for the purposes of any such examination the Auditor General may exercise all the powers of a commissioner under Part I of the *Inquiries Act*.

14. (1) Notwithstanding subsections (2) and (3), in order to fulfil his responsibilities as the auditor of the accounts of Canada, the Auditor General may rely on the report of the duly appointed auditor of a Crown corporation or of any subsidiary of a Crown corporation.

Reliance on audit reports of Crown corporations

(2) The Auditor General may request a Crown corporation to obtain and furnish to him such information and explanations from its present or former directors, officers, employees, agents and auditors or those of any of its subsidiaries as are, in his opinion, necessary to enable him to fulfil his responsibilities as the auditor of the accounts of Canada.

Auditor General may request information

(3) If, in the opinion of the Auditor General, a Crown corporation, in response to a request made under subsection (2), fails to provide any or sufficient information or explanations, he may so advise the Governor in Council, who may thereupon direct the officers of the corporation to furnish the Auditor General with such information and explanations and to give him access to those records, documents, books, accounts and vouchers of the corporation or any of its subsidiaries access to which is, in the opinion of the Auditor General, necessary for him to fulfil his responsibilities as the auditor of the accounts of Canada.

Direction of the Governor in Council

STAFF OF THE AUDITOR GENERAL

15. (1) Such officers and employees as are necessary to enable the Auditor General to perform his duties shall be appointed in accordance with the *Public Service Employment Act*.

Officers, etc.

(2) Subject to any other Act of Parliament or regulations made thereunder, but without the approval of the Treasury Board, the Auditor General may, within the total dollar limitations established for his office in *Appropriation Acts*, contract for professional services.

Contract for professional services

(3) The Auditor General may exercise and perform, in such manner and subject to such terms and conditions as the Public Service Commission directs, the powers, duties and functions of the Public Service Commission under the *Public Service Employment Act*,

Delegation to Auditor General

ESTIMATES

other than the powers, duties and functions of the Commission in relation to appeals under sections 21 and 31 of that Act and inquiries under section 32 of that Act.

Suspension

(4) The Auditor General may suspend from the performance of his duty any person employed in his office.

Responsibility
for personnel
management

16. In respect of persons employed in his office, the Auditor General is authorized to exercise the powers and perform the duties and functions of the Treasury Board under the *Financial Administration Act* that relate to personnel management including the determination of terms and conditions of employment and the responsibility for employer and employee relations, within the meaning of paragraph 5(1)(e) and section 7 of that Act.

Collective
agreements

17. Any collective agreement affecting persons employed in the office of the Auditor General entered into before the coming into force of this Act remains in force and binds the Auditor General as employer of such persons until the expiry of that agreement.

Classification
standards

18. Classification standards may be prepared for persons employed in the office of the Auditor General to conform with the classifications that the Auditor General recognizes for the purposes of that office.

Delegation

19. The Auditor General may designate a senior member of his staff to sign on his behalf any opinion that he is required to give and any report, other than his annual report on the financial statements of Canada made pursuant to section 55 of the *Financial Administration Act* and his reports to the House of Commons under this Act and any member so signing an opinion or report shall indicate beneath his signature his position in the office of the Auditor General and the fact that he is signing on behalf of the Auditor General.

20. (1) The Auditor General shall annually prepare an estimate of the sums that will be required to be provided by Parliament for the payment of the salaries, allowances and expenses of his office during the next ensuing fiscal year. Estimates

(2) The Auditor General may make a special report to the House of Commons in the event that amounts provided for his office in the estimates submitted to Parliament are, in his opinion, inadequate to enable him to fulfil the responsibilities of his office. Special report

21. The provisions of the *Financial Administration Act* with respect to the division of appropriations into allotments do not apply in respect of appropriations for the office of the Auditor General. Appropriation
allotments

AUDIT OF THE OFFICE OF THE AUDITOR
GENERAL

22. (1) A qualified auditor nominated by the Treasury Board shall examine the receipts and disbursements of the office of the Auditor General and shall report annually the outcome of his examinations to the House of Commons. Audit of office
of the Auditor
General

(2) Each report referred to in subsection (1) shall be submitted to the President of the Treasury Board on or before the 31st day of December in the year to which the report relates and the President of the Treasury Board shall lay each such report before the House of Commons within fifteen days after receipt thereof by him or, if that House is not then sitting, on any of the first fifteen days next thereafter that the House of Commons is sitting. Submission of
reports and
tabling

PART II

CONSEQUENTIAL AND RELATED
AMENDMENTS

R.S., c. F-10	23. Part VII of the <i>Financial Administration Act</i> is repealed.	
R.S., c. P-35	24. (1) Part I of Schedule I to the <i>Public Service Staff Relations Act</i> is amended by deleting therefrom the words "Office of the Auditor General of Canada". (2) Part II of Schedule I to the <i>Public Service Staff Relations Act</i> is amended by adding thereto the words "Office of the Auditor General of Canada".	
R.S., c. E-8	25. Section 16 of the <i>Established Programs (Interim Arrangements) Act</i> is repealed and the following substituted therefor:	
Powers of Auditor General	"16. Nothing in this Act shall be construed to restrict the powers of the Auditor General of Canada under the <i>Auditor General Act</i> ."	
1970-71-72, c. 52	26. Section 27 of the French version of the <i>Pilotage Act</i> is repealed and the following substituted therefor:	
Vérificateur général	"27. Le vérificateur général vérifie chaque année la comptabilité et les opérations financières de chaque Administration et en fait rapport au Ministre."	
R.S., c. N-22	27. Subsection 23(5) of the <i>Northwest Territories Act</i> is repealed and the following substituted therefor:	
		"(5) The Auditor General has, in connection with his examination of the accounts of the Territories, all the powers that he has under the <i>Auditor General Act</i> in connection with the examination of the accounts of Canada."
		28. Subsection 26(5) of the <i>Yukon Act</i> is repealed and the following substituted therefor:
		"(5) The Auditor General has, in connection with his examination of the accounts of the Territory, all the powers that he has under the <i>Auditor General Act</i> in connection with the examination of the accounts of Canada."
		29. Section 15 of the French version of the <i>Unemployment Insurance Act, 1971</i> is repealed and the following substituted therefor:
		"15. Le vérificateur général vérifie chaque année la comptabilité et les opérations financières de la Commission et en fait rapport au Ministre."
		30. Whenever, in the French version, the expression "auditeur général" appears in any provision of an Act listed in the schedule to this Act, there shall in every case, unless the context otherwise requires, be substituted the expression "vérificateur général".

PART III

COMMENCEMENT

Coming into force **31.** This Act shall come into force on a day to be fixed by proclamation.

(The Act came into force August 1, 1977)

APPENDIX B

FINANCIAL ADMINISTRATION ACT -

EXTRACTS FROM PART VIII

FINANCIAL ADMINISTRATION ACT

R.S., c. F-10

Extracts from Part VIII

CROWN CORPORATIONS

- Access to books, etc. **76.** The auditor is entitled to have access at all convenient times to all records, documents, books, accounts and vouchers of a corporation, and is entitled to require from the directors and officers of the corporation such information and explanations as he deems necessary. R.S., c. 116, s. 86.
- Auditor's report **77.** (1) The auditor shall report annually to the appropriate Minister the result of his examination of the accounts and financial statements of a corporation, and the report shall state whether in his opinion
- (a) proper books of account have been kept by the corporation;
 - (b) the financial statements of the corporation
 - (i) were prepared on a basis consistent with that of the preceding year and are in agreement with the books of account,
 - (ii) in the case of the balance sheet, give a true and fair view of the state of the corporation's affairs as at the end of the financial year, and
 - (iii) in the case of the statement of income and expense, give a true and fair view of the income and expense of the corporation for the financial year; and
 - (c) the transactions of the corporation that have come under his notice have been within the powers of the corporation under this Act and any other Act applicable to the corporation;
- and the auditor shall call attention to any other matter falling within the scope of his examination that in his opinion should be brought to the attention of Parliament.
- (2) The auditor shall from time to time make to the corporation or to the appropriate Minister such other reports as he may deem necessary or as the appropriate Minister may require. Other reports
- (3) The annual report of the auditor shall be included in the annual report of the corporation. Annual report
- (4) Notwithstanding section 68, this section operates in lieu of section 132 of the *Canada Corporations Act*. R.S., c. 116, s. 87. Audit
- 78.** In any case where the auditor is of the opinion that any matter in respect of a corporation should be brought to the attention of the Governor in Council, the Treasury Board or the Minister of Finance, such report shall be made forthwith through the appropriate Minister. R.S., c. 116, s. 88. Report through Minister

APPENDIX C

**RECOMMENDATIONS OF THE ROYAL COMMISSION
ON FINANCIAL MANAGEMENT AND ACCOUNTABILITY**

(Lambert Commission)

PART I: TOWARD A FRAMEWORK FOR ACCOUNTABILITY

Introduction to the Report

PART II: CENTRAL ROLES AND RESPONSIBILITIES

Chapter 5: Setting Limits: The Fiscal Plan

The Commission recommends that

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| 5. 1 | each year the Minister of Finance present to Parliament, on behalf of the Government, a five year <i>Fiscal Plan</i> which provides estimates of revenues, sets expenditure ceilings, and reflects the expected surplus or deficit. The Plan would be based on the existing tax structure and clearly stated economic assumptions. | Minister presents Fiscal Plan to Parliament—p. 77 |
| 5. 2 | the Fiscal Plan contain ceilings on expenditures for specified functions of government within the ceiling set on expenditures for each of the five years covered by the Plan. | Ceilings on expenditures—p. 83 |
| 5. 3 | for the first three years covered by it, the Fiscal Plan contain departmental and agency expenditure ceilings, within the total expenditure limit for each of those years. | |
| 5. 4 | an annual update of the Fiscal Plan be developed jointly by the Department of Finance, the Privy Council Office, and the Financial Management Secretariat of the Board of Management, and that the Minister of Finance, supported by the President of the Board of Management, submit it to the Cabinet Committee on Priorities and Planning. | Update of Fiscal Plan to Cabinet Committee on Priorities and Planning—p. 85 |
| 5. 5 | the Government set out clearly the effects on the Fiscal Plan of the Estimates, Supplementary Estimates, and the Budget when it tables these documents. | Effects of Estimates and Budget on Fiscal Plan—p. 89 |
| 5. 6 | legislative proposals be accompanied by five-year projections of their financial implications and a statement of any consequent adjustments necessary in the Fiscal Plan. | Legislative proposals accompanied by five-year projections—p. 89 |

Chapter 6: Planning Expenditures and Accounting for Results

The Commission recommends that

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| Specific purposes to be stated in Estimates—p. 96 | 6. 1 | each program, activity, and sub-activity displaying resource requirements in the Estimates have a specific stated purpose and, in so far as possible, a measurable result. |
| Consolidated Estimates submitted annually—p. 99 | 6. 2 | Consolidated Estimates presenting government-wide information and the important features of departmental and agency Estimates be submitted annually to Parliament. |
| Consolidated Estimates contain comparisons of proposed expenditures with expenditure limits—p. 99 | 6. 3 | the Consolidated Estimates contain a comprehensive comparison of the total expenditures proposed in them with expenditure limits set out for the Estimates year in the most recent Fiscal Plan. |
| Separate Estimates of expenditure for each department—p. 98 | 6. 4 | separate Estimates of expenditure for each department and agency be tabled at the same time as the Consolidated Estimates, and that such separate submissions be drawn up in accordance with centrally-determined standards of disclosure and accounting practices, with decisions pertaining to detail left to each department and agency. |
| Detail to be provided for statutory programs—p. 100 | 6. 5 | legislation be amended or enacted to require that details of expenditures to be incurred under statutory programs be fully identified and quantified in the Consolidated Estimates and updated in the Supplementary Estimates; and, that the same level of detail as is provided for non-statutory expenditures be provided for statutory expenditures. |
| Funding lapse after 5 years for new statutory programs—p. 102 | 6. 6 | legislation for all new statutory programs, except those relative to interest on the public debt, require that funding lapse automatically at the end of the fifth year following introduction, and that renewal of such funding be authorized only after parliamentary review of the current and projected costs and benefits of such programs. |
| Ministers to evaluate existing statutory programs and report to Parliament—p. 103

Minister's report referred to appropriate standing committee | 6. 7 | with respect to existing statutory programs, legislation be enacted to require the responsible minister to evaluate once in the next ten years and thereafter every five years the current and projected costs and benefits of all these programs, except those relative to interest on the public debt, and that a report thereon be tabled in Parliament and be automatically and permanently referred to the appropriate standing committee for its consideration and recommendations. |
| Discontinue vote-netting—p. 103 | 6. 8 | the practice of vote-netting be discontinued. |
| Prepare annual reports by September 30—p. 107 | 6. 9 | all departments and agencies be required to prepare complete annual reports by September 30 following the end of the fiscal year to which they relate, that these reports be immediately tabled in the House of Commons or, if the House is not sitting on that date, within 10 days of the time the House next meets, and, that they be automatically and permanently referred to the standing committee that reviews the Estimates of the department or agency concerned. |

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| 6.10 | Volume II of the Public Accounts contain departmental financial statements and other financial data required by the Financial Administration Act, signed by the deputy minister as chief administrative officer and by the senior financial officer, and that it continue to be referred to the Public Accounts Committee. | Volume II of the Public Accounts—p. 105 |
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Chapter 7: Consolidating the Management Function of Government

The Commission recommends that

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| 7. 1 | the Financial Administration Act be amended to rename the Treasury Board the <i>Board of Management</i> , that the new Board be chaired by a senior minister with the title <i>President of the Board of Management</i> , and that one of the other five ministers be appointed <i>Vice-President of the Board of Management</i> . | Structure of the Board of Management—p. 114 |
| 7. 2 | the Board of Management have the responsibilities set out in Sections 5 and 7 of the Financial Administration Act for general administrative policy, organization of the public service, financial management, and personnel management. | Responsibilities of the Board of Management—p. 114 |
| 7. 3 | with regard to financial management, the Board of Management have responsibility to review annual and longer term expenditure plans and programs of departments and Crown agencies requiring appropriations from the Consolidated Revenue Fund, and that these plans and programs be reviewed to ensure that they are in accordance with the priorities and expenditure ceilings approved by the Cabinet in the Fiscal Plan, and that they have been prepared with due regard to the economical and efficient use of personnel and money. | Board of Management review of annual and longer term expenditure plans—p. 114 |
| 7. 4 | the Public Service Employment Act be amended so as to transfer the authority of the Public Service Commission for staffing the public service to the Board of Management, while leaving with the Public Service Commission continuing responsibility for the preservation and monitoring of the merit principle. | Board of Management responsible for staffing—p. 118 |
| 7. 5 | the Board of Management have responsibility for reviewing the effectiveness with which departments and agencies administer the programs and activities set out in their annual expenditure plans. | Board responsible for reviewing effectiveness of departmental management—p. 130 |
| 7. 6 | the Board of Management be supported by two secretaries of the Board, one, the <i>Secretary for Personnel Management</i> , and the other, the <i>Comptroller General</i> . | Two secretaries of the Board—p. 115 |

Responsibilities of the
Secretary for Personnel
Management—p. 118

7. 7 under the direction of the President of the Board of Management, the Secretary for Personnel Management have the central management responsibilities for government-wide policies on manpower planning; appraisal of personnel at the senior management level, and career development of the senior management cadre; collective bargaining; administrative policies relating to personnel, official languages, and training; and, that the Secretary for Personnel Management ensure that positions are correctly classified, departments are staffed in accordance with the Public Service Employment Act, and that departmental organization is monitored and reviewed.

Responsibilities of the
Comptroller General—
p. 126

7. 8 under the direction of the President of the Board of Management, the Comptroller General have the central management responsibilities for the screening of departmental plans and Estimates; advice on departmental expenditure ceilings and man-year ceilings in the Fiscal Plan; program evaluation policies and procedures, including performance measurement standards; the preparation of the Consolidated Estimates and the Public Accounts; accounting principles and practices, including standards of disclosure required in annual reports and financial statements; the organization of financial services and internal audit in departments; the training and development of financial officers; and, administrative policies concerning contracts and the procurement of matériel and services.

Joint responsibilities of
the Secretary for
Personnel Management
and the Comptroller
General—p. 130

7. 9 the Secretary for Personnel Management and the Comptroller General together be responsible, on behalf of the Board of Management, for reviewing the economy, efficiency, and effectiveness with which departments and agencies administer the financial and human resources authorized by Parliament.

Personnel Management
Secretariat and
Financial Management
Secretariat—p. 115

7.10 two secretariats for the Board of Management be established, the *Personnel Management Secretariat* to be headed by the Secretary for Personnel Management and the *Financial Management Secretariat* to be headed by the Comptroller General.

Support staff for the
Board of
Management—p. 116

7.11 the Secretary for Personnel Management and the Comptroller General draw from their respective secretariats a common staff support group for co-ordinating the preparation of agendas, the recording of minutes and decisions of the Board of Management, and for communicating to departments and agencies the action required of them.

Staffing authority
delegated to Secretary
for Personnel
Management or deputy
heads—p. 120

7.12 the Public Service Employment Act be amended to give the Board of Management the authority to make appointments to and within the public service, and to specify that the Board of Management delegate this authority only to the Secretary for Personnel Management or to deputy ministers and their counterparts in Crown agencies.

Secretary for Personnel
Management to appoint
ADMs—p. 122

7.13 the Secretary for Personnel Management be responsible for appointing assistant deputy ministers and their equivalents, including senior personnel officers and senior financial officers, on the recommendation of the deputy head concerned.

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| 7.14 | the Board of Management reassume the Treasury Board's full responsibility for training, and delegate the authority for carrying it out to the Secretary for Personnel Management. | Responsibility for training—p. 122 |
| 7.15 | training services be provided through a separate, revenue dependent organization reporting to the Secretary for Personnel Management and subject to the accountability régime set out for common service organizations. | Mechanism for training—p. 122 |
| 7.16 | the Public Service Commission be reconstituted as a <i>Parliamentary Department</i> with the duty of ensuring that selection and appointment to the public service are made on the basis of merit, and that the Public Service Commission report annually to Parliament those instances where personnel policies, procedures, and actions fail to support the merit principle. | Public Service Commission reconstituted as a Parliamentary Department—p. 123 |
| 7.17 | the autonomy of the Public Service Commission be assured by providing that the appointment of Commissioners by the Governor in Council be for ten years during good behaviour and be subject to ratification by the Senate and the House of Commons, and that removal be upon address of both Houses of Parliament. | Appointment and removal of Public Service Commissioners subject to joint resolution of both Houses—p. 124 |
| 7.18 | the Public Service Commission have the power to direct the Secretary for Personnel Management to cause appointments to be revoked and to institute new competitions or other selection procedures. | Power to direct Secretary for Personnel Management—p. 124 |
| 7.19 | the Program Branch of the Treasury Board Secretariat be transferred to the Financial Management Secretariat. | Transfer Program Branch—p. 129 |
| 7.20 | the Comptroller General be responsible for screening and recommending the approval of departmental Estimates to the Board of Management. | Comptroller General screens departmental Estimates—p. 130 |
| 7.21 | the Comptroller General be empowered by the Board of Management to require that departments conduct specific program evaluations in problem areas identified by the Board, that the Comptroller General set standards for these evaluations, and that the Comptroller General recommend to the President of the Board of Management that action be taken where program evaluation is hindered by jurisdictional disputes. | Comptroller General to require program evaluations—p. 131 |
| 7.22 | the Board of Management direct the Comptroller General, as required, to conduct an evaluation of the effectiveness of any program or program component, or of the economy and efficiency with which a program or component is managed. | Comptroller General to conduct economy, efficiency, or effectiveness evaluations—p. 132 |
| 7.23 | authority and responsibility for the format and content of the Consolidated Estimates and the Public Accounts be assigned to the President of the Board of Management, and that he be supported in these responsibilities by the Comptroller General. | Consolidated Estimates and Public Accounts the responsibility of the President—p. 134 |

Comptroller General recommends standards of disclosure and accounting—p. 134	7.24	the Comptroller General recommend standards of disclosure and accounting to the Board of Management for use in all Estimates, the Public Accounts, and annual reports submitted to Parliament, and that he ensure that the standards approved by the Board are adhered to.
Chief Accountant of the Government of Canada—p. 135	7.25	a <i>Chief Accountant of the Government of Canada</i> be appointed to assist the Comptroller General in determining the format and content of the Consolidated Estimates and the Public Accounts, in setting standards of disclosure and accounting to be used in Estimates, Public Accounts, and annual reports, and in ensuring that approved standards are maintained.
Accounting systems division in the accounting branch—p. 136	7.26	the accounting branch of the Financial Management Secretariat include an accounting systems division charged with planning, controlling, and monitoring the development, introduction, and maintenance of cost-based accounting systems in departments.
Professional development responsibilities—p. 138	7.27	the Comptroller General determine the requirements of government for financial and accounting skills, and be responsible for the identification and development of the necessary people to meet these requirements.
Comptroller General determines scope and standards of internal auditing—p. 139	7.28	the minimum scope and standards of internal auditing, including auditing for compliance with central agency directives and guidelines, be determined by the Comptroller General.
Internal audit programs and reports to be submitted to Comptroller General—p. 139	7.29	departmental internal audit programs and reports be submitted to the Comptroller General for his review, and that the Comptroller General also have the authority to evaluate the effectiveness of the internal audit work performed by departmental and agency audit staff.
Audit Services Bureau of DSS disbanded—p. 140	7.30	the Audit Services Bureau in the Department of Supply and Services be disbanded and its staff transferred to individual departments and to the Financial Management Secretariat.
Staffing Financial Administration Branch—p. 140	7.31	the Financial Administration Branch in the Financial Management Secretariat be staffed to conduct internal audits of departments without an internal audit capability.
Comptroller General assists departments in preparation of work plans—p. 140	7.32	the Comptroller General and his staff work with departments to assist them in the preparation of annual work plans for improving financial management and control, and that they monitor and assist in the satisfactory implementation of these plans.
Annual departmental management performance reviews—p. 141	7.33	the Comptroller General and the Secretary for Personnel Management conduct an annual in-depth review of each department's management performance.
Assessment of departmental performance sent to minister, President, PCO, and COSO—p. 144	7.34	the assessment of departmental performance, prepared jointly by the Comptroller General and the Secretary for Personnel Management, be submitted to the responsible minister, the President of the Board of Management, the Privy Council Office, and the Committee of Senior Officials on Executive Personnel.

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| 7.35 | the authority and responsibility for the operations of the Consolidated Revenue Fund and all other aspects of day-to-day cash management be clearly vested in and fulfilled by the Department of Finance. | Department of Finance responsible for all aspects of cash management—p. 145 |
| 7.36 | all funds deposited in authorized depositories in the name of the Receiver General be credited immediately to the account of the Government of Canada, and that amounts in excess of minimum balances established by contract earn interest as from the following business day. | Funds deposited in the name of the Receiver General to earn interest immediately—p. 149 |
| 7.37 | charges for all banking services rendered in connection with transactions relating to the government be made on a fully competitive basis. | Competitive charges for all banking services—p. 149 |
| 7.38 | plans for daily minimum cash balances, receipts, and disbursements be made by the Bank of Canada in the light of information provided by the Department of Finance. | Bank of Canada plans for daily balances, receipts, disbursements—p. 150 |
| 7.39 | subject to election by recipients, repetitive payments to individuals, such as those for salaries, pensions, and family allowances, be made by automatic transfer through the central clearing system to designated depositories, thus obviating the costs of cheque issue and distribution. | Repetitive payments to individuals made by direct transfer—p. 150 |

Chapter 8: Common Services

The Commission recommends that

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| 8. 1 | common service organizations be funded through a system of revenue dependency on a full-cost basis. | Revenue dependent system for funding—p. 162 |
| 8. 2 | all common service organizations offer their goods and services at rates based on a full-cost approach, and that all goods and services provided by common service organizations be unit-priced. | Rates based on full-cost approach—p. 164
Unit pricing of goods and services—p. 164 |
| 8. 3 | funds for common services, including, annual rental costs for accommodation, be provided in the Estimates of the user departments, and that all transactions between common service organizations and client departments be actual transactions. | Funds for common services provided in departmental Estimates—p. 165 |
| 8. 4 | the Comptroller General annually conduct public hearings with respect to the fees charged by common service organizations with the full participation of common service organizations, program departments and agencies, and interested private sector groups, and that, on the basis of these hearings, the common service fee structures be recommended to the Board of Management for approval and communication to all departments and agencies. | Annual hearings re fees charged—p. 166 |
| 8. 5 | the Bureau for Translations and the Government Telecommunications Agency be transferred to the Department of Supply and Services under the direction and control of the Minister of Supply and Services. | Bureau for Translations, Government Telecommunications Agency transferred to Supply and Services—p. 168 |

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| One deputy for Supply and Services—p. 169 | 8. 6 | all the functions of the Department of Supply and Services be brought together under one deputy minister. |
| CADC subject to common service policies and departmental accountability régime—p. 169 | 8. 7 | the Crown Assets Disposal Corporation continue to be responsible to the Minister of Supply and Services, be governed by the common service policies of the Board of Management, and be subject to the proposed management and accountability régime recommended for all departments. |
| Design and construction capabilities in departments to be constituted as Other Designated Departments—p. 169 | 8. 8 | the branches within the Departments of National Defence, Transport, and Indian Affairs and Northern Development which provide design and construction capabilities be specifically and separately identified and organized as <i>Other Designated Departments</i>, and made revenue dependent on a full-cost basis. |

PART III: DEPARTMENTS

Chapter 9: Responsibility and Accountability for Departmental Management

The Commission recommends that

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| 9. 1 | departmental plans and performance goals be developed for the minister's approval by the deputy minister in his capacity as <i>Chief Administrative Officer</i> , and that the achievement of these program and performance objectives be monitored and later reviewed by the Board of Management in a manner that would permit the deputy to defend departmental performance. | Review of departmental performance—p. 188 |
| 9. 2 | deputy ministers be liable to be called to account directly for their assigned and delegated responsibilities before the parliamentary committee most directly concerned with administrative performance, the Public Accounts Committee. | Deputy head accountability before Parliament—p. 189 |

Chapter 10: The Appointment and Appraisal of Deputy Heads

The Commission recommends that

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| 10. 1 | on appointment, a deputy head be expected to serve in his department for a period of three to five years. | Deputy appointments for 3-5 years—p. 193 |
| 10. 2 | the views of the Secretary for Personnel Management and the Comptroller General be sought with respect to all deputy head appointments. | Management potential of deputy head candidates—p. 194 |
| 10. 3 | on appointment of the deputy, the Secretary to the Cabinet, the official serving as adviser on senior appointments, and the two secretaries of the Board of Management meet with him to discuss departmental problems, issues, and performance expectations, and that individual objectives be agreed between the minister and the deputy, submitted to the Prime Minister, and serve as the continuing basis for performance evaluations. | Setting objectives for deputy heads—p. 197 |
| 10. 4 | these statements of objectives be reviewed annually by the deputy head and the minister, and any changes deemed necessary be communicated to the Prime Minister, the Secretary to the Cabinet, the adviser on senior appointments, and the two secretaries of the Board of Management. | Annual update of objectives—p. 199 |
| 10. 5 | the Committee of Senior Officials on Executive Personnel, comprising the Secretary to the Cabinet, the adviser on senior appointments, the Comptroller General, and the Secretary for Personnel Management as permanent members, and four other deputy ministers appointed on a rotational basis, be responsible for preparing for the Cabinet appraisals of the performance of all Governor in Council appointees who are involved in the management of departments. | COSO, composition and role in appraisal—p. 199 |

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| Deputy comments on evaluation—p. 200 | 10. 6 | the deputy head have the opportunity to comment on the evaluation before it is forwarded to the Cabinet Committee on the Public Service and the full Cabinet. |
| Reporting appraisal results to deputy head and minister—p. 201 | 10. 7 | following the final decision by the Cabinet, the annual evaluation of a deputy's performance be discussed personally with him by the adviser on senior appointments. |
| Evaluation reviewed by minister—p. 201 | 10. 8 | the COSO evaluation of the deputy be reviewed and, if necessary, commented upon by the minister before its submission to the Cabinet. |
| Deputy secretary to the Cabinet for senior appointments—p. 202 | 10. 9 | a deputy secretary to the Cabinet be assigned full-time responsibility for supporting the adviser on senior appointments. |

Chapter 11: The Preparation and Review of Departmental Plans

The Commission recommends that

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| Departmental responsibility centres to be related to resources and measurable outputs—p. 205 | 11. 1 | deputy heads of all departments ensure that their organizational structures clearly reflect that responsibility centres are directly related to programs, activities, or sub-activities that can be identified with particular resources and, where possible, with specific measurable outputs. |
| Accountability of responsibility centre managers—p. 206 | 11. 2 | such responsibility centres be under the control of managers who can be accountable for establishing plans and achieving results. |
| Departmental management committees set objectives and goals—p. 207 | 11. 3 | each departmental management committee place priority on developing strategy and plans by setting medium-term departmental objectives, by approving challenging goals for managers, and by communicating these objectives and goals clearly to managers of responsibility centres. |
| Discontinue Program Forecasts—p. 208 | 11. 4 | the preparation and submission of Program Forecasts be discontinued. |
| Departmental Strategic Plans—p. 209 | 11. 5 | departments be required to prepare <i>Departmental Strategic Plans</i> each year for submission to the Board of Management in support of the Estimates, and to the Department of Finance and the Privy Council Office for their information and consideration. |
| Operational goals memorandum—p. 211 | 11. 6 | the departmental Estimates submission to the Board of Management be accompanied by a memorandum outlining the key operational goals to be achieved by the end of the Estimates year. |
| Screening departmental plans—p. 213 | 11. 7 | the screening of departmental plans be concluded by the transmittal of a letter to each minister from the President of the Board of Management, and that this letter comment on the results of the screening and report any unresolved or other important issues. |

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| 11. 8 | the minister responsible for the Departmental Strategic Plan and Estimates, accompanied by the deputy head, appear before the Board of Management to explain and justify his Estimates submission, and that the Comptroller General and the Secretary for Personnel Management attend these meetings to respond to any questions from the Board about their interpretation of, or recommendations on, the plans and the Estimates. | Approving Estimates submissions—p. 215 |
| 11. 9 | the Financial Management Secretariat monitor the implementation of recommendations made by the Board of Management for any changes in departmental plans or Estimates. | Comptroller General monitors implementation of Board's recommendations—p. 216 |

Chapter 12: *The Deputy and the Departmental Management Team*

The Commission recommends that

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| 12. 1 | the Board of Management require the deputy to ensure that goals are set for each manager reporting directly to him, that goals focus attention on the most important problems and priorities in the manager's area of responsibility, and that they provide an objective basis for measuring the manager's performance. | Senior departmental managers, goals and evaluation—p. 221 |
| 12. 2 | deputy heads be delegated the authority for approving organization, classification, and staffing decisions affecting all positions below the level of assistant deputy minister or equivalent within existing complements. | Deputy has authority for staffing below ADM level—p. 222 |
| 12. 3 | the deputy's recommendations for the classification of positions at the level of assistant deputy minister and equivalent, and changes in organization involving positions at this level, be subject to approval by the Board of Management. | Deputy's recommendations for classification of positions at ADM level subject to Board of Management approval—p. 223 |
| 12. 4 | for assistant deputy minister and equivalent positions, the deputy head select a candidate from a list drawn up by the Secretary for Personnel Management and recommend that candidate for appointment by the Secretary for Personnel Management. | Secretary for Personnel Management appoints to positions at ADM level—p. 224 |
| 12. 5 | deputy heads establish similar procedures for delegating authority for and approving classification, organization, and staffing decisions within departments. | Staffing decisions within departments—p. 225 |
| 12. 6 | the Board of Management ensure the effective discharge of these fundamental personnel management responsibilities by deputy heads through audit procedures and annual departmental performance reviews. | Board to ensure effective personnel management—p. 224 |
| 12. 7 | Parliament enact legislation to introduce unsatisfactory performance as grounds for discipline or release, subject to the present appeals process and review by the Public Service Commission, and to simplify the process for disciplining or releasing consistently below-par performers at all levels. | Unsatisfactory performance as grounds for release—p. 226 |

Deputy's authority to dismiss, demote, transfer employees—p. 228	12. 8	the Secretary for Personnel Management of the Board of Management delegate to deputy heads who have established acceptable performance appraisal procedures the authority to dismiss, demote, or transfer employees below the level of assistant deputy minister.
Placement and counselling service—p. 228	12. 9	the Secretary for Personnel Management operate a placement and counselling service to assist employees who have been dismissed.
Career development plans—p. 229	12.10	deputy heads establish and follow a management succession and career development plan that systematically identifies candidates for senior positions in the department and for promotion to other positions within the public service.
Secretary for Personnel Management consolidates plans—p. 231	12.11	the Secretary for Personnel Management review the departmental plans with the deputy heads and consolidate them to establish a managerial career development plan for the government as a whole.
Developing managers an important part of deputy's evaluation—p. 231	12.12	the performance of deputy heads in developing managers be made an important part of the deputies' own performance evaluations.
Senior personnel officer to report to deputy—p. 232	12.13	the senior personnel officer in the department report directly to the deputy head and be a full and active member of the management committee.

Chapter 13: Departmental Financial Organization and Personnel

The Commission recommends that

Training of senior managers in financial management—p. 235	13. 1	staff courses, temporary secondment to the private sector, temporary assignment programs, and other career development arrangements for senior managers be developed in such a way that they lay strong emphasis on practical explanations and demonstrations so that participants develop a better understanding of the nature and purposes of financial management in government.
Senior financial officers involved in planning, budgeting, evaluation in departments—p. 236	13. 2	deputies be required to manage and organize their departments so as to permit senior financial officers to make a significant contribution to their planning, budgeting, controlling, and evaluation activities.
Senior financial officers, goals and evaluation—p. 239	13. 3	each senior financial officer be required annually to establish measurable goals for his personal performance, that such goals be agreed to by the deputy minister and the Comptroller General, and that his subsequent performance evaluation by the deputy be based on a measurement of achievement against these goals.

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| 13. 4 | for senior financial officer positions, the deputy head select a candidate from a list drawn up by the Comptroller General and recommend that candidate for appointment by the Secretary for Personnel Management. | Appointment of senior financial officers—
p. 239 |
| 13. 5 | the senior financial officer in the department report directly to the deputy head and be a full and active member of the management committee. | Senior financial officer reports to deputy—
p. 240 |
| 13. 6 | the Comptroller General, if his discussions with the deputy head concerned produce no satisfactory result, be required to report to the Board of Management those instances where financial management in a department is unsatisfactory because of badly defined and/or ineffective functional authority of senior financial officers over financial staffs reporting to program or regional managers. | Comptroller General reports instances of unsatisfactory financial management—p. 242 |
| 13. 7 | on receipt of a report of unsatisfactory financial management, the Board of Management be empowered to direct that all financial staff of the department concerned report directly to the senior financial officer for a period to be specified by the Board. | Board of Management empowered to direct financial staff to report directly to senior financial officer—
p. 243 |
| 13. 8 | the Secretary for Personnel Management of the Board of Management revise the classification benchmarks for financial and clerical positions to ensure that only those positions requiring formal accounting training are placed in the FI group; and that he ensure that all FI position descriptions accurately reflect the skills and duties required of the incumbent. | Secretary for Personnel Management to revise classification scheme for financial and clerical positions—
p. 243 |
| 13. 9 | the Secretary for Personnel Management of the Board of Management work closely with the Comptroller General to develop courses that meet both modern standards and financial management requirements in the federal government, and that satisfactory completion of such courses be appropriately tested and recognized. | Development of courses for financial management in government—p. 245 |

Chapter 14: Accounting and Auditing

The Commission recommends that

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| 14. 1 | comprehensive cost-based accounting systems be developed and used in all federal departments and agencies, and that these systems meet the criteria of capturing all costs on a timely and accurate basis and be integrated with costing systems capable of analyzing the data thus obtained. | Cost-based accounting systems for all departments and agencies—p. 250 |
| 14. 2 | accounting systems in departments and agencies incorporate independent financial control over all non-cash assets, and particularly over fixed assets and inventories. | Accounting systems incorporate financial control over non-cash assets—p. 251 |
| 14. 3 | the federal government take the lead in setting up a joint task force with the provincial governments to determine the accounting standards that should be recognized, accepted, and used in the presentation of government financial information. | Joint task force to determine accounting standards for government—p. 255 |

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| Departments responsible for accounting systems—p. 257 | 14. 4 | departments be fully responsible for the design and upkeep of their own accounting systems. |
| Systems to meet requirements of central agencies—p. 259 | 14. 5 | departmental accounting systems be designed to provide the information required by central agencies accurately and promptly. |
| Systems formally approved by Comptroller General—p. 259 | 14. 6 | departmental accounting systems, and any subsequent changes therein, be formally approved by the Comptroller General before being brought into use. |
| Broadening the scope of internal audit in departments—p. 260 | 14. 7 | the internal audit responsibility of departments and agencies be based on a comprehensive approach to all financial, operational, and management auditing, and that it therefore cover adherence to all centrally-prescribed financial, personnel, official languages, data processing, and other administrative policies and procedures, as well as the economy, efficiency, and effectiveness with which resources are used. |
| Departmental Audit Committees—p. 263 | 14. 8 | <i>Audit Committees</i> be formally created in all departments and that they comprise at least the deputy head and two members from the ranks of senior executives of major corporations and organizations in the private sector. |

PART IV: CROWN AGENCIES

Chapter 16: A Proposed Re-ordering of Crown Agencies

The Commission recommends that

- 16. 1** the Schedules to the Financial Administration Act be replaced by a more comprehensive set of schedules in accordance with four categories:
- 1) *Ministerial and Other Designated Departments*
 - 2) *Independent Deciding and Advisory Bodies*
 - 3) *Crown Corporations*
 - 4) *Shared Enterprises*
- and that when any re-scheduling occurs such decisions be tabled for the information of Parliament.
- Categorization for departments and Crown agencies—p. 279

Chapter 18: Independent Deciding and Advisory Bodies

The Commission recommends that

- 18. 1** every constituent act of an *Independent Deciding and Advisory Body* designate one official as chief executive officer who will be responsible for the supervision and direction of the work and staff of the agency and be held accountable for the administration of the agency.
- Constituent act to designate one official as chief executive officer—p. 312
- 18. 2** unless specifically exempted in the constituent act, the authority of the Board of Management with respect to financial and personnel management in departments apply to Crown agencies in Category II, *Independent Deciding and Advisory Bodies*.
- Departmental accountability régime applies—p. 313
- 18. 3** when *Independent Deciding and Advisory Bodies* are established, the goals and public policies they are to implement, or be guided by, be clearly set out in their constituent acts.
- Goals to be clearly set out in acts—p. 314
- 18. 4** in cases where *Independent Deciding and Advisory Bodies* are authorized to make regulations, these be subject to Governor in Council approval before being promulgated.
- Regulations subject to Governor in Council approval—p. 315
- 18. 5** the constituents acts of *Independent Deciding and Advisory Bodies* contain provisions allowing for policy directives from the Governor in Council.
- Policy directives from Governor in Council—p. 316
- 18. 6** prior to the issuance of a policy directive to an *Independent Deciding and Advisory Body*, the Government refer the matter to the agency, which may request public submissions thereon and shall make a public report within ninety days or such longer period as the Government may specify, and further, that such directives be published in the *Canada Gazette* and tabled in the House of Commons.
- Directives to be made public, published in the *Canada Gazette*, and tabled in Parliament—p. 317
- 18. 7** the right to appeal individual decisions of *regulatory agencies* to designated ministers or the Governor in Council be abolished.
- Abolish political appeals—p. 318

- Transfer of functions requires parliamentary approval—p. 319 **18. 8** without abrogating the powers granted to the Governor in Council in the Public Service Rearrangement and Transfer of Duties Act, the transfer to a department or agency of government of any function assigned by statute to an *Independent Deciding and Advisory Body* require parliamentary approval.
- Members subject to removal for cause p. 321 **18. 9** all constituent acts of *Independent Deciding and Advisory Bodies* clearly stipulate that members shall be subject to removal only for cause and that in addition, for *regulatory agencies*, such action be subject to a joint resolution of both Houses of Parliament.
- For regulatory agencies removal subject to joint resolution—p. 321
- Chief executive officers appointed for three-year terms and evaluated by COSO —p. 322 **18.10** the members of *Independent Deciding and Advisory Bodies* designated as chief executive officers be appointed to such positions for three-year terms, subject to renewal, and that their administrative performance be evaluated by the Committee of Senior Officials on Executive Personnel, and its reports be submitted to the Cabinet when it is considering re-appointment.
- Chief executive officers undertake annual performance evaluations of members—p. 323 **18.11** chief executive officers of *Independent Deciding and Advisory Bodies* undertake annual performance evaluations of the members of their agencies and that such evaluations be forwarded to COSO and the Cabinet.
- Annual reports referred to standing committees —p. 324 **18.12** the annual reports of *Independent Deciding and Advisory Bodies* be automatically and permanently referred to the appropriate standing committees of the House of Commons, and that they provide a thorough description of the activities of the preceding year including both achievements and problems, a record of reports issued and directives received, and plans for the coming year.
- Minister to review functions and operations—p. 325 **18.13** the designated minister be required to undertake a review of the functions and operations of *Independent Deciding and Advisory Bodies* not less than once every ten years, and further, that the results of such reviews be tabled in the House of Commons and be automatically and permanently referred to the appropriate standing committee.

Chapter 19: Crown Corporations

The Commission recommends that

- Clear statements of task, purposes, objectives and powers of Crown Corporations—p. 333 **19. 1** in the constituent act, or letters patent issued under the Canada Business Corporations Act, for each *Crown Corporation*, the mandate provide a clear definition of the task, purposes, objectives, and powers devolved upon the corporation, and, where letters patent are used to constitute the corporation, that these automatically be tabled in Parliament.
- Creation or acquisition of Crown Corporations or subsidiaries—p. 334 **19. 2** the creation of a *Crown Corporation* or subsidiary or the acquisition of a company by a *Crown Corporation* or subsidiary require express parliamentary sanction in the relevant departmental or *Crown Corporation* constituent act and prior Governor in Council approval.

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| 19. 3 | the chief executive officer be responsible for preparing a <i>Corporate Strategic Plan</i> for the approval of the board and for the information of the designated minister. | Preparation and approval of Corporate Strategic Plan—p. 335 |
| 19. 4 | directives issued to a <i>Crown Corporation</i> by the designated minister be subject to Governor in Council approval, be tabled forthwith in Parliament, and be duly recorded in the annual report of the corporation. | Ministerial directives to be tabled in Parliament, recorded in annual report—p. 336 |
| 19. 5 | directives issued to a <i>Crown Corporation</i> be binding on the corporation but that they relieve the directors of their responsibility in the matter, and that, where directives result in additional costs to the corporation, compensation on an agreed or independently arbitrated basis be awarded. | Directives binding on the corporation—p. 337

Compensation—p. 338 |
| 19. 6 | directors of <i>Crown Corporations</i> be appointed for three-year staggered terms by the Governor in Council on the recommendation of the designated minister, after consultation with the chairman of the board of directors. | Appointment and terms of directors—p. 339 |
| 19. 7 | the chairman of the board of directors of a <i>Crown Corporation</i> be appointed by the Governor in Council after consultation with the board. | Appointment of chairman—p. 340 |
| 19. 8 | subject to confirmation by the Governor in Council on the recommendation of the designated minister, the chief executive officer of a <i>Crown Corporation</i> be appointed and removed by the board of directors of the corporation. | Appointment of chief executive officer—p. 341 |
| 19. 9 | the president of a <i>Crown Corporation</i> be chief executive officer, and that his remuneration, together with that of the chairman of the board, be fixed by the board of directors within ranges approved by the Governor in Council, such ranges to be determined on the recommendation of independent advisers. | President is chief executive officer—p. 342

Remuneration of president and chairman fixed by board—p. 342 |
| 19.10 | the board of directors of a <i>Crown Corporation</i> be responsible for establishing the form and contents of the capital and operating budgets based on the highest accepted standards. | Board of directors responsible for form and contents of budgets—p. 342 |
| 19.11 | the capital budget, when appropriations are not required, be approved by the board of directors, submitted to the designated minister and the Minister of Finance for review and approval, and thereafter be submitted to the Governor in Council for approval and subsequent tabling in Parliament at the same time as the Estimates. | Approval of capital budget when appropriations not required—p. 342 |
| 19.12 | the capital budget, when appropriations are required, be approved by the board of directors, submitted to the designated minister, the Minister of Finance, and the Board of Management for review and approval, and thereafter be submitted to the Governor in Council for approval and subsequent tabling in Parliament with the Estimates. | Approval of capital budget when appropriations are required—p. 342 |
| 19.13 | the operating budget, when appropriations are not required, be approved by the board of directors, be presented to the designated minister for information, and be assigned to the chief executive officer for implementation. | Approval of operating budget when appropriations not required—p. 344 |

Approval of operating budget when appropriations are required—p. 344	19.14	the operating budget, when appropriations are required, be approved by the board of directors, and forwarded to the designated minister for his approval and subsequent transmission to the Board of Management and the Governor in Council for their approval prior to tabling in Parliament, and that all approval procedures be completed before the budget is assigned to the chief executive officer for implementation.
Bylaws effective upon board approval—p. 347	19.15	<i>Crown Corporation</i> bylaws take effect on approval by the board of directors, but that they require subsequent ratification by the Governor in Council and tabling in Parliament.
Codes of conduct and systems of compliance are board responsibilities—p. 347	19.16	codes of conduct and a system of compliance be prepared by <i>Crown Corporations</i> , approved by the board of directors, and agreed with the minister, and that monitoring of compliance be the responsibility of the board.
Audit committees—p. 349	19.17	all <i>Crown Corporations</i> appoint audit committees made up of outside directors.
Appointment of external auditor—p. 349	19.18	the Governor in Council appoint the external auditor on the recommendation of the board of directors, except where the auditor is already named in constituent legislation.
Auditor General has access to audit reports of outside auditors—p. 349	19.19	the Auditor General, where he is not named as the external auditor, have access to the audit reports of outside auditors of <i>Crown Corporations</i> .
Every subsidiary listed with its parent corporation—p. 352	19.20	every subsidiary be listed with its parent in the <i>Crown Corporations</i> category, and that the financial statements of all subsidiaries on both a consolidated and unconsolidated basis be included in the parent corporation's annual report.
Minister to review operations and functions every ten years—p. 353	19.21	the designated minister be required to undertake a review of the mandate and operations of <i>Crown Corporations</i> not less than once every ten years and further that the results of such reviews be tabled in Parliament and referred automatically for study and appropriate action to the relevant standing committee.

Chapter 20: Shared Enterprises and Quasi-public Corporations

The Commission recommends that

Shared Enterprises and subsidiaries included in revised schedules to the FAA—p. 356	20. 1	<i>Shared Enterprises</i> be listed as such for purposes of identification in the revised schedules to the Financial Administration Act, and that the subsidiaries of <i>Shared Enterprises</i> be directly accountable to their parent corporations and identified by and listed with their parent corporations.
Accountability of Shared Enterprises—p. 359	20. 2	accountability with respect to the delegated public responsibility of <i>Shared Enterprises</i> normally be subject to appropriate federal or provincial corporate law, and, in addition, that provision be made for appropriate reporting and disclosure to Parliament.

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| 20. 3 | the designated minister as trustee shareholder for the Crown accept the rights and responsibilities of any shareholder under the applicable corporate law, except where those rights and responsibilities have been clearly modified by a specific constituent act. | Rights of designated minister—p. 359 |
| 20. 4 | the designated minister be the accountability link between a <i>Shared Enterprise</i> and Parliament. | Accountability to Parliament—p. 359 |
| 20. 5 | the annual reports of <i>Quasi-public Corporations</i> that receive grants or contributions from the Government be tabled each year at the same time as the tabling of the Estimates. | Annual reports of Quasi-public Corporations—p. 364 |
| 20. 6 | the Government undertake to hold the officers of <i>Quasi-public Corporations</i> accountable in a manner commensurate with the degree of governmental sponsorship or encouragement of those corporations. | Accountability of Quasi-public Corporations—p. 364 |

PART V: ACCOUNTABILITY TO PARLIAMENT: CLOSING THE LOOP

Chapter 21: Rights and Responsibilities

The Commission recommends that

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| 21. 1 | the deputy minister as chief administrative officer account for his performance of specific delegated or assigned duties before the parliamentary committee responsible for the scrutiny of government expenditures, the Public Accounts Committee. | Deputy accountable before Public Accounts Committee—p. 374 |
| 21. 2 | there be established a committee of the House of Commons to be known as the <i>Standing Committee on Government Finance and the Economy</i> , that the annual Fiscal Plan presented to Parliament be automatically and permanently referred to this committee, that the committee report to the House on its study of the Plan, and, that the Government respond formally to the committee's report during a subsequent debate. | Fiscal Plan automatically and permanently referred to a new Standing Committee on Government Finance and the Economy—p. 381 |

Chapter 22: Instruments and Procedures

The Commission recommends that

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| 22. 1 | the total number of standing committees of the House of Commons be reduced and that, with the exception of the Public Accounts Committee, membership on them be limited to 15 or fewer. | Reduce number and membership of standing committees—p. 389 |
| 22. 2 | Standing Order 65.(4) be amended to provide for prior notice of votes in committees and the establishment of alternates lists from which to draw substitutes for committee members. | Prior notice of votes and alternates lists—p. 397 |
| 22. 3 | the chairmen of standing committees be elected by each committee for the life of a parliament, and receive remuneration for performing their duties, such remuneration to relate to that received by parliamentary secretaries. | Term and remuneration of standing committee chairmen—p. 399 |
| 22. 4 | each standing committee of the House of Commons be allotted a budget to which all expenses associated with the operation of the committee are charged, that the budget include an allocation for hiring staff but that the selection of staff be at the discretion of the committee, and, that staff be at the service of the whole committee but under the direction of the chairman. | Budgets and staff for standing committees—p. 400 |
| 22. 5 | the annual reports of departments and agencies be automatically and permanently referred to the appropriate standing committees of the House of Commons. | Automatic and permanent reference of annual reports—p. 401 |
| 22. 6 | Standing Order 58.(16) be re-interpreted to make clear that substantive reports from House committees are desirable whether or not they are to be debated. | Substantive reports from committees—p. 403 |

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| Partial reduction of an item of expenditure—p. 404 | 22. 7 | Standing Order 58 be amended to permit standing committees to recommend the partial reduction of an item of expenditure in the Estimates. |
| Legislation relating to taxation referred to committee—p. 407 | 22. 8 | all legislation relating to taxation be referred to the Standing Committee on Government Finance and the Economy, and that this committee be informed of the likely effects on the Fiscal Plan of all other legislative proposals. |
| Standing committees to study impact of programs—p. 409 | 22. 9 | standing committees undertake, as the need arises or as time permits, in-depth studies of the impact of programs, and that these studies concentrate on reviewing the need for and the benefits conveyed by specific programs. |

APPENDIX D

REPORTS OF THE STANDING COMMITTEE ON PUBLIC ACCOUNTS TO THE HOUSE OF COMMONS:

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FIRST REPORT OF THE STANDING COMMITTEE ON PUBLIC ACCOUNTS TO THE HOUSE OF COMMONS, FEBRUARY 21, 1979

REPORT TO THE HOUSE

Wednesday, February 21, 1979

The Standing Committee on Public Accounts has the honour to present its

FIRST REPORT

1. In accordance with its permanent Order of Reference contained in the Standing Orders of the House of Commons, your Committee has considered the Public Accounts of Canada, Volume I, for the fiscal year ended March 31, 1978, and in particular the following sections:

(a) Section 2—Audited Financial Statements of the Government of Canada;

(b) Section 3—Observations by the Auditor General on the Financial Statements of the Government of Canada.

2. The cooperation of the following witnesses is acknowledged:

From the Office of the Auditor General of Canada:

Mr. J. J. Macdonell, Auditor General;

Mr. N. G. Ross, Adviser to the Auditor General;

Mr. J. J. Kelly, Principal.

From the Office of the Comptroller General:

Mr. H. G. Rogers, Comptroller General;

Mr. S. Mensforth, Deputy Secretary, Financial Administration Branch.

From the Department of Finance:

Mr. L. Langlois, Special Adviser, Fiscal Policy Division.

From the Department of Supply and Services:

Dr. A. G. Irvine, Director General, Government of Canada Accounting Branch.

3. Your Committee heard testimony concerning the Financial Statements of the Government of Canada and the Opinion of the Auditor General thereon in Section 2, Volume I of the 1978 Public Accounts and Observations by the Auditor General in Section 3, Volume I of the 1978 Public Accounts. The greater part of the testimony related to the three reservations in the Auditor General's Opinion and to the implementation of the recommendations contained in the Study of the Accounts

of Canada which your Committee had previously endorsed in its Fifth Report to the House of March 9, 1976. The Auditor General's reservations dealt with the reported value of certain assets shown on the Statement of Assets and Liabilities—in particular, with balances designated for deletion from the accounts but reported as assets and liabilities; with the effect of excluding certain Crown corporations from the government accounting entity; and with the reported value of certain loans, investments and advances.

4. The first reservation of the Auditor General refers to the overstatement of assets and liabilities because of the inclusion of certain amounts designated for deletion as identified in Notes 5 and 7 to the audited financial statements of the Government of Canada. Your Committee observed that the Study of the Accounts of Canada had recommended that most of these amounts be deleted from the accounts of Canada. Your Committee also observed that the Government recognized and disclosed this overstatement in Notes 5 and 7. After hearing testimony from the Auditor General and from officials of his Office, from the Comptroller General and an official of his Office, your Committee concluded that legislative action should be taken as soon as possible to delete these amounts from the accounts of Canada.

5. Your Committee again recommends that legislative action be taken as soon as possible to delete from the accounts of Canada the assets and liabilities identified in Notes 5 and 7 to the audited financial statements and to prevent similar balances from recurring in future years.

6. The second reservation of the Auditor General concerns the overstatement of assets because certain Crown corporations named in Schedules C and D to the *Financial Administration Act* are excluded from the government accounting entity. The definition of the accounting entity in Note I (ii) to the financial statements is based on the present classification of Crown corporations in the *Financial Administration Act*. Your Committee recognizes that with respect to Crown corporations the Government proposes to amend the *Financial Administration Act* and to introduce separate legislation. Your Committee urges the Government to incorporate in this legislation your Committee's recommendations on the classification of Crown corporations given in its Second (Crown Corporations) Report to the House, dated April 12, 1978 as follows:

“Legislation provide separate schedules for corporations:

(i) substantially dependent on public funds or carrying on government operations;

(ii) meeting the test of financial viability and carrying on commercial operations;

(iii) only partly government-owned . . .”.

Based on this classification, in order to eliminate inconsistencies in the recording of assets and budgetary expenditures in the accounts of Canada, your Committee concludes that the government accounting entity, as described in the notes to the financial statements, should include all Crown corporations substantially dependent on public funds or carrying on government operations.

7. Your Committee recommends that the accounting entity of the Government of Canada should include all Crown corporations substantially dependent on public funds or carrying on government operations.

8. The third reservation of the Auditor General questions the reported value of loans to and investments in certain Crown corporations since these corporations have a history of deficits and lack sufficient revenues to repay their indebtedness to Canada. In its Fifth Report, dated March 9, 1976, your Committee called for further study of the accounting for loans to government-controlled organizations whose financing is unrealistic and who therefore may not be in a position to repay such loans. Your Committee is concerned that such a study has not been carried out. Furthermore, your Committee concluded in its Second Report, dated April 12, 1978, that “converting unrecoverable loans to equity investments continues to overstate the assets of Canada . . .” and recommended that “non-recoverable loans to corporations be written off in the accounts of Canada through budgetary appropriations . . .”.

9. Your Committee recommends that the Office of the Comptroller General review each year loans to and equity investments in Crown corporations with a view to recommending that adequate provision be made through budgetary appropriations where such corporations lack sufficient revenues to repay the investment of Canada.

10. The third reservation of the Auditor General also questioned the reported value of loans to developing countries and loans to and subscriptions in international development associations which, by their terms, have the characteristics of grants or contributions. Your Committee recognizes the special nature and character of these loans and subscriptions and observes that their terms are not adequately disclosed in the audited financial statements of the Government of Canada or elsewhere in Volume I of the Public Accounts. Your Committee heard testimony concerning a number of difficulties relating to the valuation of these loans and subscriptions. In its

Fifth Report, dated March 9, 1976, referred to above, your Committee called for further study of loans to other governments. Your Committee concludes that the Office of the Comptroller General should expedite this study and report back to the Committee as soon as possible. Your Committee also concludes that the terms of these loans and subscriptions should be disclosed in the audited financial statements.

11. Your Committee recommends that:

(a) The terms of loans to developing countries and loans to and subscriptions in international development associations be adequately disclosed in the audited financial statements of the Government of Canada; and

(b) The Office of the Comptroller General expedite a study to establish an appropriate basis for valuing such loans and subscriptions and report back to the Committee as soon as possible.

12. Your Committee acknowledges that a number of recommendations of the Report on the Study of the Accounts of Canada have been implemented. However, your Committee notes with concern the delays and lack of progress in implementing certain significant recommendations—in particular, those concerning the deletion of assets and liabilities, the Estimates, the valuation of assets, commitment accounting, revolving funds, and the recording of accounts payable. Your Committee therefore requests the President of the Treasury Board to provide it with a schedule of target dates for implementing the remaining recommendations.

13. Your Committee recognizes the importance of the audited financial statements of the Government of Canada included in Section 2 of Volume I of the 1978 Public Accounts and acknowledges the improved disclosure in the notes to these statements. Your Committee also notes the Auditor General's observations calling for the following to be included as part of the information contained in the audited financial statements: a statement of source and use of financial resources; a statement of use of non-budgetary appropriations for loans, investments and advances; and a summary of significant contractual commitments. Your Committee supports all such actions designed to make the audited financial statements of the Government of Canada a complete and useful summary of the Government's financial position, results of operations and changes in financial position.

14. A copy of the relevant Minutes of Proceedings and Evidence (*Issues Nos. 2, 6, 9 and 16 of the Fourth Session, Thirtieth Parliament*), is tabled.

Respectfully submitted,

Ron Huntington
Chairman

SECOND REPORT OF THE STANDING COMMITTEE ON PUBLIC ACCOUNTS TO THE HOUSE OF COMMONS, MARCH 23, 1979

REPORT TO THE HOUSE

Friday, March 23, 1979

The Standing Committee on Public Accounts has the honour to present its

SECOND REPORT

1. In accordance with its permanent Order of Reference contained in the Standing Orders of the House of Commons, your Committee has considered the Report of the Auditor General of Canada to the House of Commons for the fiscal years ended March 31, 1977 and March 31, 1978. The following sections have been considered:

(a) 1977 Report

(i) Paragraph 17.5—Serious weaknesses in the administration of the Fishing Vessel Insurance Plan;

(ii) Paragraph 18.3—Inadequate control of payments to fishermen and fish processors;

(iii) Paragraph 18.4—Land rental paid under long-term lease for property not being occupied;

(iv) Paragraph 18.5—Payment to Manitoba improperly charged to a 1975-76 appropriation; and

(v) Paragraph 18.6—Weaknesses in the administration of the Fisheries Prices Support Board.

(b) 1978 Report

(i) Paragraphs 3.29 to 3.34 inclusive—Environment—Flood Control;

(ii) Paragraph 21.4—Unnecessary costs resulting from project approval based on inadequate information;

(iii) Paragraph 22.11—Land rental paid under long-term lease for property not being occupied. This is a continuation of paragraph 18.4 from the 1977 Report; and

(iv) Chapters 11 and 12—Comprehensive Auditing.

2. The co-operation of the following witnesses is acknowledged:

From the Office of the Auditor General of Canada:

Mr. J. J. Macdonell, Auditor General of Canada;

Mr. R. Chatelain, Deputy Auditor General;

Mr. D. L. Meyers, Assistant Auditor General;

Mr. R. M. Dubois, Assistant Auditor General;

Mr. N. G. Ross, Adviser to the Auditor General;

Mr. W. A. Bradshaw, Adviser to the Auditor General;

Mr. R. B. Robinson, Deputy Director General, Study of Procedures in Cost Effectiveness (SPICE);

Mr. J. J. Kelly, Principal;

Mr. W. F. Radburn, Principal;

Mr. R. M. Warme, Principal;

Mr. D. Brown, Consultant on Computer Auditing.

From the Office of the Comptroller General of Canada:

Mr. H. G. Rogers, Comptroller General of Canada;

Mr. L. McGimpsey, Director, Financial Policy Evaluation Division.

From the Treasury Board Secretariat:

Mr. P. Meyboom, Deputy Secretary, Administrative Policy Branch;

Mr. J. G. Haché, Group Chief, Policy Development, Administrative Policy Branch.

From the Department of the Environment:

Mr. J. B. Seaborn, Deputy Minister;

Mr. D. J. McEachran, Assistant Deputy Minister, Fisheries Management Service;

Mr. W. E. Armstrong, Assistant Deputy Minister, Planning and Finance Service;

Mr. J. B. Bruce, Assistant Deputy Minister, Environmental Management Service;

Mr. N. H. James, Director General, Inland Waters Directorate;

Mr. G. P. Vachon, Director General, Finance Directorate;

Mr. C. M. Blackwood, Director General, Industry Services;

Mr. C. L. Mitchell, Acting Director, Fishing Services;

Mr. D. K. Pollock, Director, Management and Administration Branch, Canadian Wildlife Service;

Mr. L. Clark, Co-ordinator, Fishing Vessel Insurance Plan.

From the Fisheries Prices Support Board:

Mr. W. C. MacKenzie, Chairman;
Mr. J. J. LeVert, Executive Director.

From the Department of Public Works:

Mr. F. S. Currie, Director General, Property Services.

From the Department of Supply and Services:

Mr. G. J. Brown, Director General, Audit Services Bureau.

3. Your Committee heard testimony concerning paragraphs 17.5, 18.3, 18.4, 18.5 and 18.6 in the Auditor General's 1977 Report, and paragraphs 21.4, 22.11 and 3.29 to 3.34 in the Auditor General's 1978 Report respecting the Department of the Environment. Testimony was also heard with respect to Chapters 11 and 12 in the Auditor General's 1978 Report. The conclusions reached by your Committee and your Committee's recommendations derived therefrom are presented by paragraph and chapter number.

Paragraph 17.5 (Auditor General's 1977 Report)—Serious weaknesses in the administration of the Fishing Vessel Insurance Plan.

4. The Auditor General reported that there were serious weaknesses in the administration of the Fishing Vessel Insurance Plan which is operated by the Fisheries and Marine Service of the Department of the Environment. The objectives and accounting procedures of the Plan had not been developed formally in a written format; guidelines providing for overall appraisal, acceptance of risk and rate determination had not been issued on a national basis; effective control had not been maintained over the collection and deposit of insurance premiums; and, policy forms were not properly controlled.

5. The Department has prepared a draft manual entitled *The Fishing Vessel Insurance Plan* which addresses some of the weaknesses indicated above, and the Department has taken steps to correct some other reported weaknesses.

6. Your Committee recommends that:

- (a) the Department continue with its implementation of corrective measures;
- (b) a central monitoring system be established to ensure that across regions rates are determined and policies relating to vessel appraisal and risk acceptance are established and applied as comprehensively and uniformly as practicable; and
- (c) the Auditor General continue to monitor progress in the Department's implementation of corrective measures.

Paragraph 18.3 (Auditor General's 1977 Report)—Inadequate control of payments to fishermen and fish processors.

7. The Auditor General reported on inadequacies in control over payments made to fishermen and processors of fishery products under a program instituted by the Department of the

Environment in 1975, for the purpose of rehabilitating the groundfish industry. The Department had not retained data in support of the fishermen's claims; there was lack of proper evidence on claim forms that proper checks had been made; audits of processors' records had not been done to confirm the accuracy of their claims; and, finally, there was an absence of centralized rules and procedures governing payments.

8. The Department did institute corrective measures in 1976-77 and began audits of processors, records scheduled on a three year cyclical basis which have resulted in recovery of overpayments made to processors. However, no attempts were to recover approximately \$1 million paid to fishermen which was in excess of the limit set for this program. These payments resulted from inadequate central controls during the fiscal year 1975-76 and recovery was not attempted because it would not have been feasible or fair to the fishermen.

9. As a result of improved conditions in the groundfish industry, this program of support payments to fish processors was terminated on April 1, 1978 and support payments to fishermen were terminated on October 1, 1978.

10. Your Committee recognizes the requirement for prompt action when an industry is placed in a critical situation due to uncontrollable events and acknowledges the program's success evident in the viable groundfish industry in existence today.

11. Your Committee recommends that the Department establish preliminary strategies which would enable it to cope in a more satisfactory manner should a similar situation arise in the future.

Paragraph 18.4 (Auditor General's 1977 Report)—Land rental paid under long-term lease for property not being occupied.

12. The Auditor General reported that payments were made by the Department of the Environment for unproductive resources. In 1974 the Department, wishing to establish a Pacific Environment Center, purchased the leasehold interest in a 55 acre site in North Vancouver, British Columbia. Costs have been as follows:

- (a) payment of \$4 million to lessee;
- (b) lease payments of \$241,000 per annum since 1974;
- (c) municipal taxes of \$112,000 to December 31, 1977; and
- (d) payment of \$810,000 for property-related-services.

The original lessee was granted a ten-year sub-lease on 9.5 acres for \$1 per year even though, based on 1974 market rents, the present value of the sub-lease was \$702,000.

13. In May 1976 the land was identified as excess by the Department of the Environment as a result of a decision to cancel the planned project, the Pacific Environment Centre, which had previously been deferred. Since that time the Department of Public Works has been responsible for finding:

alternative uses for the property. Negotiations have taken place between the Department of Public Works and the owners of the property, but to date no alternative acceptable to both the Department and the owners have been found.

14. Your Committee concluded that:

(a) Although an operational need and economic justification for a Pacific Environment Centre was established by the 1971 *Task Force Report on the West Coast Institute*, neither the 1972 *Task Force Report on Requirements for the Project for Space and Funds* nor the 1973 *Accommodation Survey Report of the Steering Committee* justified the expansion of the original plans for facilities on either an operational or economic basis;

(b) criteria for site selection for the Pacific Environment Centre were not well-defined before examination of sites began, and that site selection was not undertaken on the basis of a thorough and objective comparative analysis of alternative locations;

(c) negotiations for the property selected as the site for the Pacific Environment Centre were undertaken before relevant information, such as the cost of necessary site improvements, the results of a traffic study and the results of an acoustic study, was available; and

(d) negotiations for purchase of the leasehold interests and renegotiation of the lease with the owners were not undertaken in a thorough manner which would have been conducive to exercising due regard for economy.

15. Your Committee recommends that:

(a) the Department of the Environment comply with its stated policy of performing the appropriate analyses to provide economic or operational justification for a project before it is decided to construct new facilities or expand existing ones;

(b) criteria for site selection be carefully established by the Department before site examination and negotiations for acquisition proceed;

(c) site selection by the Department for any new facilities be done on a cost-effectiveness basis taking into account all relevant information; and

(d) appraisals of property of a substantial size under consideration for acquisition by the Department be obtained from a minimum of two independent parties as a basis for property negotiations.

16. You Committee further recommends that:

(a) the Department of Public Works increase its efforts to attract offers on the property, and continue its negotiations with the owners with a view of eliminating the unproductive expenditures; and

(b) the Department report to your Committee on progress made in their marketing and negotiating efforts at six month intervals from the date of this report, until a solution is reached.

Paragraph 18.5 (Auditor General's 1977 report)—Payment to Manitoba improperly charged to a 1975-76 appropriation.

17. The Auditor General reported that the Department of the Environment improperly charged a 1975-76 appropriation with a payment to Manitoba of \$463,000 made in 1976-77 under an agreement to share equally costs incurred in rehabilitating and developing a wildlife sanctuary. It was reported, as well, that advance payments were made by the Department to the Province of Manitoba without obtaining substantial evidence in the form of detailed quarterly audited statements of expenditure which the Province, under the agreement, had agreed to furnish. As of April 1978 the Province was holding payments of \$789,000 over and above the federal share of expenditures under the agreement, on an interest free basis.

18. The improper charge of \$463,000 was subsequently adjusted in 1976-77 and, in May 1978, the Government of Canada was refunded the amount of \$789,000 which represented the contributions made in excess of the federal share of expenditures.

19. Your Committee concluded that:

(a) the Department of the Environment committed an obvious contravention of Section 30 of the *Financial Administration Act* by improperly charging the 1976-77 payment to the 1975-76 appropriations; and

(b) judicious control was not exercised by the Department of the Environment in the making of advance payments to Manitoba under the terms of the joint agreement.

20. Your committee recommends that:

(a) in accordance with Section 30 of the *Financial Administration Act*, the Department charge payments made to the preceding fiscal year only if a contractual obligation is in existence at the end of that year; and

(b) federal-provincial agreements undertaken by the Department of the Environment provide for payments by the Department to the province concerned on the basis of reimbursement for provincial expenditures which have been incurred for the project under agreement; and further, that the Department ensure that the province concerned has submitted substantive evidence in support of such payments.

Paragraph 18.6 (Auditor General's 1977 Report)—Weaknesses in the administration of the Fisheries Prices Support Board.

21. The Auditor General's Report expressed a number of concerns regarding the operation of the Fisheries Prices Support Board:

(a) there were inadequacies in documentation and in procedures for processing claims;

(b) the Board had not obtained Governor-in-Council approval required by its Act before establishing a purchase price for fishery products costing \$2.5 million;

(c) the practice of auditing producers' records to validate claims submitted had not been initiated; and

(d) documentation was not available to indicate that the Board was complying with the requirements of the *Fisheries Prices Support Act*, R.S., c. F-23, to establish purchase prices and to determine deficiency payments to be made on the basis of maintenance of a fair relationship between the returns for fisheries and those from other occupations.

22. Your Committee recognizes that over the past two years considerable efforts have been made by the Board to ensure that the concerns indicated by the Auditor General would be eliminated:

(a) certain controls are now in place to ensure proper documentation and procedures for processing claims;

(b) Governor-in-Council approval was obtained retroactively for the price at which fishery products were purchased for \$2.5 million in 1975-76;

(c) a procedure has been established whereby records of producers receiving payments under current or recent programs are audited to validate deficiency payments; and

(d) the Board has produced a policy statement which outlines procedures for establishing prices at which sales and purchases are to be made, for the setting of rates for deficiency payments, and for dealing with conflict of interest situations.

23. Your Committee is concerned that whereas the Federal Prices Support Act provides the Board with a mandate for establishing prices at which sales and purchases are to be made and the rate at which deficiency payments are to take effect, on the basis of an endeavour to secure a fair relationship between the returns from fisheries and those from other occupations, the Board does not consider comparative data on returns from fishing and from other occupations to be the most pertinent information upon which to base its decisions. The Board's stated policy is to consider this comparative information in the context of other data covering a three to five year period concerning the fishery under consideration, including "the number of fishermen affected, the prices obtained by these fishermen, the quantity and value of their landings, the current inventory of relevant products and relevant product prices".

24. Your Committee recommends that:

(a) The *modus operandi* presented by the Board in the document *Policy and Praxis* be presented in a more specific manner to ensure that prices are established in accordance with the Board's stated policy. In particular, the relevant data required for the determination of purchase prices and for the establishment of rates at which deficiency payments are effected, and the comparative weights that each of these data should be assigned, should be decided upon by the Board. If the mandate provided to the Board by its Act requires a revision in order to accommodate assessment procedures which the Board established as the most satisfactory, the Board should present the Minister with this requirement;

(b) given the desirability of having as Board members those who are able to make qualified judgments on the implementation and design of programs, and the possibility of conflict of interests which may result, the Board adhere strictly to their stated "Conflict of Interest Guidelines" in order to ensure that the stated objectives of the Board are met; and

(c) the Auditor General continue to monitor the Board to ensure that weaknesses which have been indicated are corrected.

Paragraph 21.4 (Auditor General's 1978 Report)—Unnecessary costs resulting from project approval based on inadequate information.

25. The Auditor General reported that the Department of the Environment incurred unnecessary construction costs because a dyking project was undertaken jointly with the Province of British Columbia before an adequate assessment was made of available information on its possible ecological impact. Termination of the dyking project has resulted in demands for compensation from the Indian Bands whose lands would have been affected by the project.

26. Your Committee recognizes the inherent difficulties encountered by the Department of the Environment in becoming aware of, assessing and incorporating all available information when making decisions which may have ecological impacts. The Department has reported the incorporation of a computer retrieval system which will facilitate this process.

27. Your Committee suggests that there may be other mechanisms by which the channels of communication within the Department would be improved and recommends that such mechanisms be sought out and incorporated so that, in the future, unproductive expenditures resulting from inadequate information can be avoided.

Paragraph 3.29 to 3.34 (Auditor General's 1978 Report)—Environment—Flood Control.

28. The Auditor General expressed concern with some aspects of the flood control programs which were implemented under federal-provincial agreements in Quebec, Ontario and British Columbia and stated in particular that in his opinion the Department of the Environment did not give due regard to economy in Southwestern Ontario and Montreal:

(a) in all three programs initial cost estimates presented were unrealistically low;

(b) in Ontario the Department of the Environment took responsibility for the flood control program which had been initiated by another federal department, in the absence of the normal pre-agreement planning process;

(c) the individual projects in Ontario and Quebec were undertaken either without cost-benefit analyses having been completed or without adequate review of those analyses which had been presented; and

(d) procedural controls were ignored in Quebec, when one of the dyking projects was redesigned with no recalculation of benefits and costs, and in Ontario, in that the Minister's final approval required under the agreement was not obtained prior to construction.

29. The Department has stated that some improvements are being implemented and other improvements have been planned in the interests of economy in the undertaking of flood control projects. The Department has reported that:

(a) all proposed flood control agreements requiring federal participation will be screened by the Department of the Environment;

(b) the documentation of the process for the development of federal-provincial flood control agreements has been completed and this process will be followed in all cases;

(c) a statement of minimum acceptable terms and conditions for flood control agreements, including details of project management procedures, now under preparation by the Department, will be adhered to;

(d) appointees from the Department of the Environment to federal-provincial joint committees which oversee the agreements will be required to comply strictly with the terms and conditions of the agreement and to report back to the Minister if their interpretation differs from that of their provincial counterparts;

(e) cost-benefit analysis, for which standard procedures are being devised, will be applied to all flood control projects by the Department. Internal analysis will be performed on those cost-benefit studies which have been done by outside agencies or consultants; and

(f) the Department will institute procedures to measure the effectiveness of flood-control projects, insofar as effects are quantifiable, without an excessive expenditure of resources.

30. Your Committee recommends that:

(a) the procedural improvements indicated by the Department of the Environment be stringently adhered to in order that events such as those reported by the Auditor General do not recur; and

(b) the Auditor General's Office continue to monitor the implementation of the Department's stated procedural improvements.

Chapters 11 and 12 (Auditor General's 1978 Report)—Comprehensive Auditing.

31. Your Committee heard testimony from the Auditor General with respect to a new audit approach for the Audit Office which will provide Parliament with constructive comprehensive evaluations of departments, agencies and Crown corporations on a cyclical basis and which will co-ordinate the audit activities of the Office with those of internal and other auditors in these entities. The Auditor General reported that there was a generally receptive attitude to the new approach at the departmental level and that his current discussions on this matter with certain Crown corporations were also constructive and favourable.

32. Your Committee endorses the new comprehensive audit approach of the Auditor General and recognizes that the five inter-related facets of comprehensive auditing—financial controls, reporting to Parliament, attest and authority, management controls, and electronic data processing controls—coincide with the mandate that Parliament has given him. Your Committee commends the Auditor General for the effective and efficient manner in which he is carrying out his new mandate.

33. Your Committee also heard testimony from the Comptroller General with respect to the status of internal auditing within Government departments and agencies. It was noted that significant progress has been achieved by the Government since 1976 in establishing internal financial audit groups in most departments and agencies and in providing guidance to these groups through the issue of standards for internal financial audit.

34. The Comptroller General endorsed the Auditor General's recommendation for an integrated and comprehensive approach to internal auditing within Government. He agreed to report back to your Committee on the plans for current Improvement in Management Practices and Controls (IMPAC) review, which is being conducted by his Office. Your Committee looks forward to such a report and recommends prompt action by each department and agency to implement a comprehensive internal audit program.

35. A copy of the relevant Minutes of Proceedings and Evidence (*Issues Nos. 3, 4, 6, 7, 8, 9, 10 and 20*) is tabled.

Respectfully submitted,

Ron Huntington
Chairman

THIRD REPORT OF THE STANDING COMMITTEE ON PUBLIC ACCOUNTS TO THE HOUSE OF COMMONS, MARCH 23, 1979

REPORT TO THE HOUSE

Friday, March 23, 1979

The Standing Committee on Public Accounts has the honour to present its

THIRD REPORT

1. In accordance with its permanent Order of Reference contained in the Standing Orders of the House of Commons, your Committee has considered the annual report of the Auditor General of Canada to the House of Commons for the fiscal year ended March 31, 1978 and in particular the following chapter:

Chapter 6—Improving the Financial Information Parliament Receives.

2. The cooperation of the following witnesses is acknowledged:

From the Office of the Auditor General of Canada:

Mr. J. J. Macdonell, Auditor General of Canada;
Mr. N. G. Ross, Adviser to the Auditor General;
Mr. J. D. Barrington, Consultant;
Mr. D. Rattray, Audit Director;
Mr. W. A. Sherwin, Principal.

From the Office of the Comptroller General of Canada:

Mr. J. Q. McCrindell, Director, Financial Policy Development Division, Financial Administration Branch.

From the Treasury Board Secretariat:

Mr. L. O'Toole, Assistant Secretary, Program Branch.

From the Department of Agriculture:

Mr. A. G. Ross, Assistant Deputy Minister, Finance and Administration Branch;
Mr. D. H. Costley, Director, Financial Administration Division;
Mr. H. R. Armstrong, Director of Finance, Canadian Dairy Commission;

Mr. P. Babey, Vice-Chairman, Farm Credit Corporation;

Mr. W. Mann, Comptroller-Treasurer, Farm Credit Corporation.

From the Department of National Health and Welfare:

Mr. D. F. Smith, Director General, Financial Administration Directorate.

From the St. Lawrence Seaway Authority:

Mr. F. D. Normandeau, President.

3. Your Committee has examined Chapter 6 of the Auditor General's 1978 Report. "Improving the Financial Information Parliament Receives", along with illustrative Estimates prepared by the Office of the Auditor General for the Department of Agriculture, the Department of National Health and Welfare and the St. Lawrence Seaway Authority. (See *Issues 12, 14 and 15 dated February 6, 13 and 15, 1979, of the Minutes of Proceedings and Evidence of the Standing Committee on Public Accounts*).

4. Your Committee notes that the three previous Reports of the Auditor General to the House of Commons documented his concerns regarding the inadequacy of the Estimates for the purposes of providing parliamentarians with information on Government spending plans. The recommendation put forth in the Supplement to the Auditor General's 1975 Report called for "a comprehensive study of the form of the Estimates and of the information submitted by each department and agency in support of appropriation requests, . . . to determine changes needed to achieve better disclosure, as well as better control by Parliament and by the Government of departmental spending in relation to the appropriations granted". In its Sixth Report to the House of Commons dated June 30, 1976 your Committee noted that Treasury Board had agreed to study the form of the Estimates.

5. Your Committee is concerned that Treasury Board has not yet presented the results of the study which it agreed to undertake in June 1976. However, your Committee welcomes the undertakings which Treasury Board reported to the Subcommittee on Agenda and Procedure on March 8, 1979, and which have been attached as Appendix PA-24 to Issue No. 20 of the Minutes of Proceedings and Evidence of the Standing Committee on Public Accounts, to introduce revisions to the form of the Estimates according to a timetable further described in paragraph 8 of your Committee's report. Your Committee is pleased to note that the review to be conducted

by the Treasury Board Secretariat and the Office of the Comptroller General, with appropriate participation by the Office of the Auditor General, will extend to the content of the Public Accounts and the systems to ensure the integrity of the information reported both in the Estimates and the Public Accounts.

6. Your Committee believes that the revision of the form and content of the Estimates for the purpose of improving the information which Parliament receives, calls for immediate action.

Process for Estimates Revision

7. Your Committee recognizes that:

- (a) a major revision of the Estimates is a complex task;
- (b) incorporation of changes in the form must take place over several years; and
- (c) the needs of Members of Parliament for improved information in the Estimates must be paramount but considered within the context of the needs of other users of the Estimates.

8. Your Committee recommends that:

- (a) Treasury Board proceed immediately to produce illustrative estimates for specific departments in the Estimates for 1980-81 which can be tested by Members of Parliament individually and in committees;
- (b) revisions be introduced on a government-wide basis in a parallel form in the 1981-82 Estimates;
- (c) revisions which require additional work before their incorporation could be effected on a government-wide basis, be incorporated in the 1982-83 Estimates or as expeditiously as possible thereafter;
- (d) consultation take place with your Committee and other parliamentary committees to ensure that revisions adequately reflect their needs;
- (e) the Comptroller General be directly involved in the Estimates revision process;
- (f) the Auditor General be consulted in the Estimates revision process; and
- (g) your Committee be apprised at regular intervals as to the progress being made on the revision of the Estimates.

Fundamental Issues for Estimates Revision

9. Your Committee recognizes that the issue of accountability in the Government expenditures process is currently under review by the Royal Commission on Financial Management and Accountability. This issue will require further study and consideration before it is resolved, and could affect the form of the Estimates which is ultimately chosen.

10. Your Committee recognizes that the several uses of the Estimates create differing requirements as to the form and content of the Estimates and, therefore, cast different perspec-

tives on this issue. Your Committee believes that the needs of Parliament must be paramount but considered in the context of the needs of the other users of the Estimates.

11. Your Committee believes that Members of Parliament require information in the Estimates presented in a form which will enable them to:

- (a) assess the Government's proposed allocation of resources;
- (b) influence the allocation of resources in subsequent years; and
- (c) understand and debate Government plans and compare them to past performance.

The presentation of this information should lead to improved financial and operational planning at all levels of management within the Government and, ultimately, should lead to better control of expenditures by Government.

12. The resource allocation perspective requires that proposed departmental expenditures submitted in the Estimates include information to allow consideration of policies and priorities and to enable assessment of the impacts of planned Government expenditures. Such a presentation must reflect comprehensively and accurately the resource allocation decisions of Government and be consistent with Treasury Board's needs.

13. The Comptroller General is responsible for implementing financial management and control systems within Government, for monitoring these systems to ensure adequate budgetary control, and for assessing Government expenditures in terms of economy, efficiency and effectiveness. The Estimates should be prepared in a form which allows the Comptroller General to fulfil his responsibilities for monitoring and reporting.

14. The Auditor General, in order to fulfil his obligation to Parliament to ensure that money has been expended by departments on the purposes for which it was appropriated and with due regard for economy and efficiency, needs to have available to him, in the Estimates, proposed expenditures by departments which are reported with sufficient precision and certainty to provide the basis for comparison with the actual expenditures in the Public Accounts.

15. Your Committee also recognizes that the Estimates form chosen should make information on Government expenditure plans more readily accessible to other audiences who have an interest in such knowledge.

16. Your Committee suggests that it is possible for a revised form of the Estimates to take into consideration the requirements of each of these different groups, and recommends that any revision seek to satisfy as many of these diverse needs as is compatible with the requirements of Members of Parliament.

17. Your Committee further recommends that such a revision take into account the necessity of providing substantially more information than is now available.

Specific Recommendations for Estimates Revision

18. Your Committee has concluded that substantial improvements could be implemented prior to consideration of

the report by the Royal Commission on Financial Management and Accountability. Your Committee recommends that Treasury Board give consideration to these specific improvements with the purpose of implementing them as quickly as possible. Further changes could be made when the accountability issue has been resolved.

19. Your Committee recommends that:

(a) the Estimates be divided into several volumes, one of which would present summary information, and others, information specific to departments for which they would have appropriate responsibility;

(b) the summary Estimates volume include:

(i) comparative data for the two years prior to the Estimates year, for the Estimates year and for the next two years;

(ii) narrative information of a summary nature which highlights significant features of proposed government expenditures in terms of purposes, resource requirements and other classifications which may be appropriate, and compare expenditures of the federal government, other governments and the private sector;

(iii) presentation of the total costs of selected government activities to which more than one government department contributes;

(iv) presentation of the method by which the aggregate information provided each year is built up; and

(v) summary information, as distinct from departmental information which can be located elsewhere;

(c) the departmental Estimates volumes provide more complete information on each department, taking into account the need for a certain degree of standardization to ensure the objectivity of the presentation and include:

(i) background material such as that which is now contained in the departmental annual reports and policy statements;

(ii) estimated expenditures for related programs carried out by other departments;

(iii) explanations of the method by which the information provided has been built up so that users of the Estimates become aware of the more detailed information which could be provided;

(iv) narrative explanations of the significant changes from the year immediately prior to the Estimates year, and of the significant trends in the expenditures of the department; and

(v) clear-cut distinctions between the amounts to be voted and estimated expenditures;

(d) with respect to the vote structure and vote wording:

(i) conventions be established encouraging accountability in terms of the plans put forth in the Estimates

rather than solely in terms of the obligations embodied in the Appropriation Act;

(ii) separate votes be established where programs are administered by distinct organizational units and where distinct purposes are identifiable; and

(iii) the present practice of separating votes into operating, capital, and grants, contributions and other transfer payments categories be eliminated, except where the amounts or nature of the program would warrant such separation;

(e) when expenditures to be made under a statutory authority are presented in the Estimates:

(i) explanations be provided for changes in expenditure levels;

(ii) the assumptions upon which the Estimates are based be clearly presented;

(iii) comparisons be given for the Estimates and the actual expenditures in previous years; and

(iv) information be provided on projected expenditure trends and the assumptions on which they are based;

(f) when expenditures to be made are for grants, contributions and other transfer payments:

(i) the presentation of grants and contributions conform to the recommendations in the Third Report of your Committee dated June 29, 1978, which states: "where practical, grants and contributions be coded by category of use and by province, in both the Estimates and the Public Accounts"; and

(ii) the presentation of transfer payments provide more explanatory information on the proposed expenditures;

(g) all Crown corporations, as defined in the Financial Administration Act, be included in the Estimates, whether or not an appropriation is requested, and a comprehensive overview of its activities be provided by each corporation;

(h) when activity information is presented in the Estimates;

(i) it be presented at a level of sub-division for which costs can be matched with outputs;

(ii) output data be an integral part of the presentation;

(iii) the costs of an activity be defined as all of the costs that can be assigned on an objective and verifiable basis; and

(iv) costs which cannot be allocated to a particular activity be presented as unallocated costs and reported on a consistent basis from year to year;

(i) when manpower information is presented in the Estimates:

(i) the present six occupational categories be further sub-divided to indicate the professional and trade occupations which are relevant to a particular department; and

(ii) average salaries or salary profiles be provided to give a clearer indication of the type of manpower being utilized by a department; and

(j) when object-of-expenditure information is presented in the Estimates:

(i) standard objects be selectively broken down in departmental volumes to disclose expenditures on objects of significant importance to a particular program, on the basis of guidelines established by Treasury Board;

(ii) the relationship between standard objects, departmental objects and economic objects be disclosed in departmental volumes so that users of the Estimates become aware of the more detailed information which could be provided; and

(iii) standard objects be broken down in the summary volume to disclose those objects on which government expenditures are significant.

Other Considerations for Estimates Revision

20. Parliamentary procedure is not part of the terms of reference of your Committee. However, your Committee believes that if Members of Parliament are to utilize the

Estimates for the purposes outlined in paragraph 11, the procedures for Estimates review should be re-examined. Your Committee suggests that consideration be given to:

(a) the establishment of a separate Standing Committee on Expenditures to examine the summary volume of the Estimates and related government-wide issues;

(b) having the appropriate Standing Committee examine a department's Public Accounts and comments on that department in the Auditor General's Reports; and

(c) providing each such Standing Committee with an automatic and permanent Order of Reference for this material.

Your Committee recommends that the Standing Committee on Procedure and Organization be provided with an Order of Reference by the House of Commons to consider this subject.

21. Your Committee recognizes that a revision of the Estimates will be useful only if the information which is presented is reliable and can be compared to that reported in the Public Accounts. Therefore, your Committee recommends that the Comptroller General ensure that systems are in place to collect data and report information on an integrated, consistent and objective basis for use in the Estimates and Public Accounts.

22. A copy of the relevant Minutes of Proceedings and Evidence (*Issues Nos. 11, 12, 13, 14, 15, 16, 17, 18, 19 and 20*) is tabled.

Respectfully submitted,

Ron Huntington
Chairman

APPENDIX E
DEPARTMENTAL COMMENTS ON 1978
COMPREHENSIVE AUDIT RECOMMENDATIONS

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To assist the Standing Committee on Public Accounts in planning and conducting hearings on the 1978 Report, we asked the six departments and agencies for which comprehensive audits were reported in 1978 to up-date their comments on our recommendations to August 31, 1979. These are reproduced in this Appendix.

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Studies of Procedures in Cost Effectiveness

Canada Manpower Training Program

14.35 The Commission should continue its efforts to rationalize the allocation of funds to provinces and should explore means of redressing more rapidly the regional imbalance between training purchases and training needs, in line with the stated goals of the program.

Agreed. The Commission will continue to rationalize the allocation of funds as rapidly as possible consistent with the availability of funds and government policies.

The Commission is continuing to rationalize the allocation of funds as rapidly as possible consistent with the availability of funds and government policies.

14.37 The Commission should strengthen its negotiation of course prices and provincial overhead. To facilitate this, action should be taken to ensure better pricing information. Financial expertise should be strengthened where necessary to offer a better negotiating capability.

Agreed. To improve the regions' perception of their roles a three level plan of action is being implemented. As part of this plan regional officers, both program and financial will be counselled in negotiating techniques as appropriate to CMTP by an NHQ team composed of both financial and training branch officers.

To improve the regions' perception of their roles a three level plan of action has been implemented. As part of this plan, regional officers, both program and financial, are handling negotiation of CMTP with Provinces in accordance with direction given by NHQ staff.

14.43 The Commission should make every effort to improve the technical quality of its evaluations, adding lines of investigation that could assist in explaining the measured impact of training, and in providing better interpretations and qualifications of reported results. The Commission should also initiate evaluations of the impact of training allowances, the candidate selection process and the course purchasing procedures.

Agreed. The Commission is in the process of undertaking a survey for the Canada Manpower Industrial Training Program.

The Commission has taken steps to strengthen the technical aspects of its evaluations. It has also added new lines of investigation particularly in respect to the Canada Manpower Industrial Training Program.

Local Initiatives Program

14.47 Before undertaking an effectiveness evaluation, the Commission should explore the extent to which program goals can be expressed in measurable terms. The Commission should then determine the reasonableness of attempting to measure the effectiveness of the program.

Agreed. The Commission now makes a sharp distinction between exploratory studies and those seeking direct measures of program effectiveness.

The Commission now does this. It also makes a sharp distinction between exploratory studies and those seeking direct measures of program effectiveness.

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14.50 The Commission should ensure that appropriate terms of reference are developed for evaluation studies. In addition, it should improve the planning and conduct of the studies by satisfying itself as to the adequacy of the research design and by monitoring more closely the technical aspects of the studies.

Agreed.

The Commission is now doing this on a regular basis.

14.52 The Commission should critically examine evaluation reports to identify the strengths, weaknesses and limitations of their methodology and data. The examination would confirm or qualify the conclusions of the evaluation reports and form an integral part of them.

Agreed. All future major evaluation reports will include, as an integral part, a section dealing with the strengths, weaknesses and limitations of their methodology and data.

All major evaluation reports now include a section dealing with the strengths, weaknesses and limitations of their methodology and data.

14.54 The Commission should develop information to ensure that in determining the most effective allocation of departmental resources it gives due regard to the impact of changes in project funding, levels of service, and size and types of projects.

Agreed. A study has begun to develop a resource forecasting model for the major job creation programs. Administrative resources demands and allocations will be based on such findings.

A study has begun to develop a resource forecasting model for the major job creation programs. Administrative resource demands and allocations will be based on such findings.

General comments i.e. LIP - It should be noted that the program ceased to operate in 1977.

**Departmental Performance
Measurement Systems**

14.65 One common approach to developing standards, based on work measurement principles, should be used throughout the Benefit Programs group, co-ordinated by National Headquarters.

Because of the high potential for change in local office configuration during integration and the attendant effect on claims handling procedures this measurement of activity has been given less emphasis than quality of decision-making and "level of service" indicators. Once reasonable office configuration stability has been achieved, emphasis will again be placed on developing a common approach to efficiency measurement.

The CEIC/D Policy on Performance Measurement and Measured Time Standards provides for a uniform approach to the development and maintenance of time standards utilizing accepted methods of work measurement. With the inventory and evaluation of current standards complete, work is progressing on the development of a work plan and the determination of priorities for standards development.

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14.69

The Commission should ensure that measured work standards used by Central Index are updated when changes in operating procedures occur.

In view of the impending relocation to Bathurst with its relevant impact on procedures, physical relocation, etc., a decision was made not to re-study the work in Central Index. Once stability has been attained at Bathurst, the standards will be updated.

The Commission has recently completed an inventory and evaluation of time standards applicable to current operations within Central Index. In addition, areas amenable to work measurement were identified. The CEIC/D action plan allows for the new development and maintenance of standards in relation to operational procedures in place after relocation.

14.73

The Commission should undertake a study of the Labour Market Policy group to:

- seek and, if feasible, develop standards, based on work measurement principles, that can be used for efficiency improvement at the local office level;
- reduce and simplify the number of output volumes reported; and
- improve data reliability.

The Commission is presently studying the feasibility of developing work measurement standards in this area but it must be pointed out that these functions are less susceptible to work measurement than those in Immigration or Benefit Programs.

The CEIC/D Policy on Performance Measurement and Measured Time Standards provides for a uniform approach to the development and maintenance of time standards utilizing accepted methods of work measurement. With the inventory and evaluation of current standards complete, work is progressing on the development of a work plan and the determination of priorities for standards development. In addition, the P/M Steering Committee is reviewing the number of essential output volumes required to support the Commission's corporate information requirements and is monitoring data to ensure reliability.

14.78

The Commission should review the Immigration and Demographic Policy group's performance measurement system to determine:

- the activities for which standards, validated by work measurement techniques, are feasible;
- the extent to which a more uniform set of standards can be developed for use in all Regions; and
- the extent to which the system can be made to indicate actual levels of efficiency in order to determine potential for efficiency improvement.

Agreed. The Commission's intention is to improve the present design in line with a number of the recommendations made and our own further development plans.

The same standards are now used for all ten regions.

The Commission is currently reviewing the operational procedures and the main program outputs. Uniform standards will be developed in CEIC/D utilizing accepted method of work measurement and taking into consideration the peculiarities of programs. Performance indicators have been developed for the measurement of operational efficiency, operational effectiveness and quality/level of service.

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - CANADA EMPLOYMENT AND IMMIGRATION COMMISSION

<u>Recommendations</u>		<u>Auditor General's 1978 Report</u>	<u>Commission's Comments</u>	<u>Commission's Comments</u> <u>As of August 31, 1979</u>
14.79	The Immigration and Demographic Policy group's performance measurement system should differentiate between minimum manning locations and those where staffing levels can be directly related to workload. Time used should be reported against meaningful activities which correspond to major output volumes. High priority should be given to the development of meaningful unit costs as overall indicators of performance to be combined with the use of measured work standards, where applicable.	Agreed. Work is continuing on the development of unit costs as overall indicators of performance measurement.	Within the Immigration and Demographic Policy group, performance indicators have been developed for the measurement of efficiency, operational effectiveness and quality of service. Macro indicators comparing outputs with time reported have been selected for monitoring the major activities and for inclusion in a Report to the Executive Committee.	
Internal Audit				
14.89	The internal audit function should have a mandate which sets out in a clear and concise manner, the purpose, authority and responsibility of the audit function. This mandate should be approved by the Chairman/Vice-Chairman and be widely distributed to demonstrate visible support of the audit function by the senior executives in the Commission.	Agreed. The mandate for the internal audit function was approved by the Chairman on July 27, 1978 and distributed throughout the Commission in August.		A project is presently under field test to determine the accuracy and flexibility of a Threshold Study Model.
14.90	The Director of Internal Audit should report directly to the Chairman/Vice-Chairman.	Agreed. It is so stated in the mandate.		Action taken previously.
14.91	An Audit Committee should be established to co-ordinate all the audit and evaluation activities, provide guidance to the audit group and determine that appropriate action is taken on audit findings.	Agreed. The Audit Committee is now established. Its responsibilities include reviewing, evaluating and making recommendations on policy, plans, reports and assessing the extent to which audit findings were considered and effective action taken.		It is so stated in the mandate and a Director General reporting directly to the Chairman/Vice-Chairman has been appointed. Action taken previously.
14.95	The Commission should institute a formal planning process to ensure the proper selection of areas to be audited.	Agreed. Further development and refinement of the existing procedures for 1979-80 are contemplated to meet requirements.		An audit universe is being prepared as a basis for the development of a long-range audit plan and the annual audit plan for 1980-81, to be reviewed by the Audit Committee in the Fall.

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - CANADA EMPLOYMENT AND IMMIGRATION COMMISSION

<u>Auditor General's 1978 Report</u>		<u>Commission's Comments</u>	<u>Commission's Comments</u> <u>As of August 31, 1979</u>
<u>Recommendations</u>			
14.96	The contribution program audit process should be re-examined with the objective of clearly distinguishing between auditing and those financial control functions that should be the responsibility of program personnel.	Agreed. A re-examination of the contribution audit process will be carried out to ascertain respective responsibilities.	A switch from audit of individual projects to systems-based audits, which will include a sample of project audits is being phased in. In conjunction with this move, financial controls and project monitoring are being improved.
14.97	The Commission should initiate guidelines on the types of audits to be performed, with a view to placing more emphasis on functional and integrated audits.	Agreed. New guidelines will be issued in the next few months as part of a total review underway to examine the relationship between audits and operational reviews/effectiveness reviews.	This will be incorporated in the Audit Committee's review of the long-range audit plan referred to above.
14.103	A level of materiality should be determined for each audit assignment and the work performed should be related to this level.	Agreed. Greater emphasis on the application of the concept of materiality will be applied in selecting audit projects and assigning resources to them.	Materiality and risk considerations are being reflected in the long-range and current audit plans.
14.104	Summary reports should be prepared as required to consolidate the findings of audits and to advise management of serious problems to which attention should be devoted. These summaries should analyse and evaluate the data which have been collected and they should highlight and emphasize the most significant matters.	Agreed. The Internal Audit Bureau will continue to improve and expand the process for producing summary reports and to draw attention of management to serious problems.	The Internal Audit Bureau is continuing to improve and expand the process for producing summary reports and to draw attention of management to serious problems.
14.105	A follow-up policy should be established for every audit report to ensure that appropriate action has been taken. This should include both contribution program audit reports and summary audit reports.	Agreed. A revised follow-up procedure will be implemented.	A revised follow-up procedure is being implemented.

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Benefit Programs Group**Examination of the Benefit and Overpayment System**

14.132 Based on the results of our examination we concluded that:

- to properly evaluate the progress and effectiveness of any changes to the system of internal control, the Commission should perform similar tests in future years;

Agreed. Planning is now complete for a similar test of the Benefit Pay System of internal control in 1979. This test will be based on 1978 claims and will be carried out so as to provide comparability to the Auditor General's tests on 1976 and 1977 claims.

These tests will be repeated periodically in order to assess progress in internal control effectiveness.

A test, similar to those previously conducted by the Auditor General, has been carried out jointly by the Auditor General and the Commission based on 1978 claims. Plans are to repeat similar tests in the future.

As a follow-up action to weaknesses identified from the Auditor General's 1976 and 1977 tests, the Commission:

- Will be promulgating revised quality control/quality assurance guidelines for the claims adjudication and claims processing functions to set standards and provide for a national classification of errors. This is considered essential in the identification of the nature and locale of the errors so as to facilitate corrective action.

- changes to laid-down procedures should be reviewed at a regional level to reduce inconsistencies in the interpretation of policy; and

Agreed. The internal audit plan for 1978-79 includes an audit to determine whether CEIC policies, procedures, directives and other work instruments related to claims adjudication and investigation and control are adequate, take into account legislative requirements, and are being applied in Commission regional and field offices. Early results of this audit have indicated the need for a complete re-write of investigation and control procedures. This will be completed late in 1978.

- Has issued instructions to the effect that policy/procedures must not be varied or altered without the specific approval of the originating Branch. Adherence to policy/procedures is now formally audited from time to time.

- Is developing new quality control guidelines for the investigation and control officers to establish and ensure maintenance of minimum national performance standards.

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - CANADA EMPLOYMENT AND IMMIGRATION COMMISSION

<u>Recommendations</u>	<u>Auditor General's 1978 Report</u>	<u>Commission's Comments</u>	<u>Commission's Comments As of August 31, 1979</u>
<ul style="list-style-type: none"> - efforts should be made to reduce the incidence of clerical errors made by employers in the preparation of the Record of Employment forms. 	<p>Agreed. A quality control/quality assurance program specifically to reduce ROE employer errors is now being developed. This program will be implemented in 1979. Also, revisions to the ROE and instructional material for employers will be implemented in 1979.</p>	<ul style="list-style-type: none"> - Is developing a new manual to be used by Investigators and other control staff. It will be distributed directly to investigators in order to limit the possibility of inconsistencies in the interpretation of policies and the application of programs. 	
		<ul style="list-style-type: none"> - Is testing a Decision Monitoring System to control the input of decisions and to identify delays or missing decisions on an on-going basis. 	
		<ul style="list-style-type: none"> - Has implemented completely revised Record of Employment forms and employer's guides in the four Atlantic Provinces as of May 1, 1979 and on July 1, 1979 in the rest of Canada. It is anticipated that this will reduce the clerical errors made by employers when completing the Record of Employment forms. In addition, a proposed system for monitoring the quality of records of employment has been developed and is currently under review. 	
Development of On-line Benefit Pay System			
14.148	<p>A review of the adequacy of the financial controls being incorporated into the new on-line system should be performed by the Commission before its further implementation in other regions or district offices.</p>	<p>Agreed. Such a review has already been started. The On-line Benefit Pay System will not be extended before the findings of that review are evaluated.</p>	<p>The review has been completed. Additional controls are being designed for the Insurance On-line System.</p>
Labour Market Policy and Immigration and Demographic Policy Groups			
Purchase of Training			
14.158	<p>Federal-provincial agreements should clearly specify the basis for interim payments and this basis should be observed by all Regions in making such payments.</p>	<p>Agreed.</p>	<p>All Federal-Provincial Training Agreements clearly specify the basis for making interim payments to the province. All Regions are now abiding by the terms of the relevant agreement.</p>

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14.162 The federal-provincial agreements should continue to make provision for the timely certification of costs. The Commission should pursue with the provinces the possibility of amending the federal-provincial agreements so as to provide for alternate procedures should the certifications not be forthcoming.

Agreed. The Commission agrees with the recommendation that the agreements should continue to make provision for timely certification of costs and has included such a requirement in the agreements just negotiated. The Commission however considers it unnecessary to amend the agreements to provide for alternate procedures in the event that certifications are not forthcoming and will deal with individual circumstances if and when they arise through other means.

The Federal-Provincial Training Agreements continue to make specific provision for the timely certification of costs (i.e. annually). In view of its general experience with Provincial submissions, the Commission does not feel that there is any present need to seek amendments to the Agreements to provide for alternate procedures in the event that Certifications are not forthcoming.

Training Improvement Program

14.165 A standard procedure for reviewing all Training Improvement reports should be established and a follow-up program devised, where appropriate, to ensure that the maximum benefit is derived from the reports.

See 1978 comments.

This program has been cancelled effective in 1979-80.

Canada Works Program

14.169 The Commission should review the way in which Canada Works program funds are being used, develop clearer guidelines and ensure that program criteria are observed.

The situation is constantly under review and guidelines are re-written each program year to ensure clarity and firmness.

The situation is constantly under review and guidelines are re-written each program year in order to improve the clarity and to reflect the revisions required to satisfy program changes.

Other Operating Expenditures

14.172 Although the Treasury Board approved these submissions, we believe that the Commission should follow the Government Contracts Regulations and invite competitive tenders for advertising contracts.

The Commission will abide by Treasury Board requirements.

The Commission is following Treasury Board requirements.

Improperly Drafted Agreements

14.176 Standard agreements for all contribution programs should contain clauses to ensure that collection of overpayments can be pursued.

Agreed. Arrangements are now being carried out to formalize the practice recommended for all contribution programs.

Arrangements are continuing to formalize the practice recommended for all contribution programs.

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF COMMUNICATIONS

<u>Recommendations</u>	<u>Auditor General's 1978 Report</u>	<u>Department's Comments</u>	<u>Department's Comments As of August 31, 1979</u>
Organization and Role of the Financial Function			
15.20	The financial function should be the main responsibility and concern of the Senior Financial Officer.	The Department is in the process of defining the roles and responsibilities of the Senior Financial Officer in consultation with the Office of the Comptroller General and the Treasury Board Secretariat.	A Departmental Comptroller, reporting to the Deputy Minister and whose main responsibility is the financial function, was appointed in November 1978.
15.23	Functional responsibilities and relationships should be clearly defined, documented and communicated within the Department.	The functional responsibilities and relationships have been defined and documented and reviewed by the Office of the Auditor General in the draft memorandum, "Organizational Structure of Financial Management". This document is being considered prior to approval and issue.	Functional responsibilities and relationships have now been clarified with the appointment of the Departmental Comptroller.
Studies of Procedures in Cost Effectiveness			
Radio Frequency Spectrum Program			
15.36	The Department should continue to develop standard definitions and, where appropriate, production times for Spectrum tasks. It should refine the guidelines for service levels provided to the public and evaluate the costs and benefits of alternative methods of enforcement.	This is being done on an ongoing basis.	This recommendation is being implemented via the Priorities and Guidelines document, Services Sector Management Committee meetings and Spectrum and Telecommunications Management Information System (STMIS) on an ongoing basis.
15.39	The Department should take appropriate steps to ensure that meaningful and accurate performance measurement data are used for Program Forecasts and control purposes.	The procedures to ensure data integrity are being upgraded.	Data integrity is being continually improved through refinement of specifications and data capture procedures. This will lead in future years to more meaningful data for Program Forecast and control purposes.

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15.41	The Department should continue to develop and refine its regional reporting system to ensure the provision of timely, relevant and accurate data to measure operational effectiveness. These measures should be used as proxies to indicate program effectiveness.	A Management Information System is being implemented that will provide this data.	This recommendation is being implemented through continued development of the STMIS as mentioned in 15.36 above.
15.44	The Department should designate a senior official to authorize and monitor regulation development in accordance with program priorities and should establish a project management system to control this activity.	Director, Regulation Development in the Telecommunication Regulatory Service has been appointed and has been given this mandate.	This recommendation has been implemented by appointment of the Director, Regulations Development within whose purview is the development of a project management system.
15.46	<p>The Department should:</p> <ul style="list-style-type: none"> - assign to a specific Headquarters group the responsibility for approving and coordinating the continuing development of technical systems; - establish and maintain more effective operating procedures; and - ensure that all regions adopt standard technical systems and operating procedures. 	The Telecommunication Regulatory Service has been assigned this responsibility.	Recommendation has been implemented.
15.49	The Department should establish standard procedures, based on Treasury Board guidelines, for planning a project and monitoring its progress. Project plans should include regular review by the Information System Steering Committee.	The area has been further strengthened since the time of the audit.	All guidelines are being met.

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF COMMUNICATIONS

<u>Recommendations</u>		<u>Auditor General's 1978 Report</u>	<u>Department's Comments</u> As of August 31, 1979
Government Telecommunications Agency			
15.52	The Department should update its fee structures periodically, with a view to recovering full service costs.	This has been done. A cost recoverable fee schedule has been approved and is being implemented for fiscal year 1979-80.	A fully cost recoverable fee schedule has been implemented.
15.59	The Agency should: <ul style="list-style-type: none"> - re-examine the grade of service guidelines for the intercity network. These guidelines should then be submitted for approval to the Treasury Board Secretariat in accordance with the Directive set out in the Guide on Telecommunications Administration; and - determine grade of service guidelines for individual circuit groups and monitor actual performance according to established permissible variances, taking into account traffic variations and the characteristics of each circuit group. 	<p>Concur. In this re-examination the Agency will also review other associated guidelines affecting total quality of service.</p> <p>Concur.</p>	<p>The Agency has undertaken a comprehensive review of the existing grade of service guidelines and these guidelines will be updated to accommodate present and forecasted user requirements. This re-examination, now underway, takes into consideration present and forecasted user requirements.</p> <p>The Agency has developed and implemented, as of August 1978, a monthly management report that identifies and analyses variances from established grade of service guidelines. The report also outlines action that has been or will be taken to rectify any digressions from the guidelines.</p>
15.63	The Agency should: <ul style="list-style-type: none"> - determine the feasibility of obtaining more timely and comprehensive traffic data information on a cost-effective basis; - establish formal policies, procedures and records to govern the provision of circuits to individual circuit groups; and 	<p>Concur. A study is under way in the Agency to determine the feasibility and cost/benefits of improving traffic reports both by TCTS and from data produced by traffic analysing equipment used by the Agency.</p> <p>Resources are being assigned to undertake the documentation of policies, procedures, and records used in processing circuit groups.</p>	<p>Concur. As a result of studies additional traffic analyzing equipment has been added to GTA consolidations. In addition, negotiations are continuing with the telephone companies to receive more comprehensive traffic data info.</p> <p>Management instructions have been implemented for circuit provisioning effective April 1, 1979.</p>

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF COMMUNICATIONS

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- improve the timing and effectiveness of monthly traffic reports. The reports and the computer program for producing them should be modified to indicate the costs associated with variations from established grade of service objectives or with changes in these objectives.

Concur.

The existing monthly report format has been reviewed and work is underway to implement measures to improve its effectiveness.

15.66

The Agency, with the collaboration of the Treasury Board, user departments and agencies and the telephone companies, should obtain additional information on commercial long distance use. It could then assist departments and agencies in determining the extent of their parallel commercial long distance calls and the savings to be achieved through the use of its facilities.

Concur. The Department is prepared to collaborate with the Treasury Board and undertake the steps necessary to realize this objective.

Measures to improve management of DDD calling will be considered by the TAC for subsequent review by the Treasury Board. With this objective in mind, the Agency has made arrangements with the Trans Canada Telephone System to obtain data semi-annually on commercial calls originating on GTA consolidated systems.

15.69

The Agency, with the collaboration of other major users, the Department of Supply and Services and the Treasury Board Secretariat, should determine the savings to be realized through common Telpak procurement. Steps should be taken to ensure that the savings are realized to the maximum extent practicable.

Concur. GTA has made an estimate of the savings to be realized by improved co-ordination of Telpak procurement and has initiated action with the Telecommunications Advisory Committee that resulted in establishing an interdepartmental working group to determine the steps that can be taken.

A TAC working group has been established to address this matter and preliminary results indicate that significant savings can be realized in this area. Due to existing contractual obligations, between DSS and the carriers, common Telpak procurement will not be possible before April 1, 1980. Preliminary results from this Working Group indicate potential savings to the Government through this approach.

15.71

The Department should accelerate negotiations with the Treasury Board with a view to expanding the Agency's program objective to reflect the mandate set out in the Department of Communications Act. These negotiations should be supported by estimates of the benefits lost to the Government because of the present mandate restrictions.

Concur. Based on updated estimates of benefits to the government that would be realized by an expanded mandate for GTA, the Department has undertaken to continue further negotiations with the Treasury Board to this end.

Concur. Based on updated estimates of benefits to the government that could be realized by a less restricted mandate to carry out its planning and co-ordinating role, the department initiated discussions with the Treasury Board Secretariat. As a result, officials of the Secretariat are prepared to recommend the issuance of a comprehensive guideline to departments requesting the submission of an annual telecommunications plan that could be incorporated by GTA into an overall government plan.

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF COMMUNICATIONS

Recommendations	Auditor General's 1978 Report	Department's Comments	Department's Comments As of August 31, 1979
Review of Internal Audit Function			
15.78	An official audit committee with specific terms of reference should be established to ensure continuity of the audit function, provide guidance to the audit group and, ensure that appropriate action is taken on audit findings. The Director -- Program Evaluation Group should attend all meetings of the audit committee and minutes of the committee's meetings should be kept to provide a record of the items discussed and decisions made.	Agreed. Recommendation adopted.	The departmental senior management Audit Committee has been instituted along the lines recommended. Several meetings have been held specifically to review composite audit reports and operational plans of the Program Evaluation Group's internal audit function.
15.80	The mandate of the Program Evaluation Group should be clarified and widely distributed, to demonstrate visible support of the audit function by the senior executives of the Department.	Agreed and implemented.	The amended and updated mandate together with a draft Deputy Minister circular outlining the internal audit function have been presented to the departmental senior management Audit Committee for approval. This is being held in abeyance pending further clarification by the Comptroller General with respect to Program Evaluation vis-à-vis Internal Audit.
15.82	The Program Evaluation Group should be organizationally independent of all operations which they audit and report directly to the Deputy Minister.	Agreed and implemented.	This recommendation was implemented in August 1978. The Director, Program Evaluation Group reports to the Deputy Minister.
15.84	The Program Evaluation Group should be responsible for the scope and quality of all auditing work carried out for the Department, including that done under contract by the Audit Services Bureau.	Agreed. Program Evaluation Group carries full responsibility for scope, performance and quality. The contract with the Audit Services Bureau clearly indicates that the Program Evaluation Group has total authority and responsibility and carries full accountability for all audit functions in the Department.	Implemented.

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF COMMUNICATIONS

<u>Recommendations</u>		<u>Auditor General's 1978 Report</u>	<u>Department's Comments</u>	<u>Department's Comments</u> As of August 31, 1979
15.86	Areas for audit should be selected on the basis of identified priorities within the overall plan. Audit scopes should then be determined considering, among other things, identified concerns, potential benefits, management priorities and resources available. In particular, care should be taken to ensure that sufficient attention is paid to financial audits.	Agreed. Recommendation adopted.		This recommendation is being implemented on an ongoing basis.
15.88	Working papers should provide evidence that audit objectives are complied with, approved audit methods and procedures are followed, and applicable audit standards are adhered to.	Agreed. Existing procedures have been re-enforced. Comptroller General audit standards will be fully adhered to.		Composite (financial and operational) audits are being performed in conformity with Comptroller General audit standards. Internal procedures have been reinforced.
15.90	Follow-up audit procedures should be performed by audit personnel with the knowledge, discipline and skills necessary to carry out this responsibility.	Agreed. Senior auditors are always responsible for follow-up audit reports.		Senior auditors are responsible for all follow-up audit reports.
Study of Contracting				
15.95	Financial signing authority, as it relates to requisitions for computer services, should be exercised only by officers with appropriate delegated authority and it should be the responsibility of the Accounting Services section to ensure that this is the case.	The Accounting Services Division is responsible to ensure that all requisitions and contracts issued by the Department have been signed by an officer with the appropriate delegated financial signing authority.		Accounting Services will control and counter-sign work orders for computer services under Section 25 of F.A.A. before processing to the supplier company.
15.98	Contract proposals for electronic data processing services should be referred to the Contract Review Board for approval and the checklists called for by departmental policy should be completed.	The departmental policy on contract administration is being revised and will include a section on electronic data processing services that will consider the audit observations.		Directive D-9 has been modified, currently in draft, to include a section on electronic data processing.

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF COMMUNICATIONS

<u>Recommendations</u>	<u>Auditor General's 1978 Report</u>	<u>Department's Comments</u>	<u>Department's Comments As of August 31, 1979</u>
15.99	The departmental directive should provide direction for the processing of amendments to contracts.	The revised directive will outline the procedure for processing amendments to contracts.	Procedures are clearly stated in revised directive.
15.101	All sole source procurement contract requests should be properly justified and such justifications recorded.	The Materiel Management section ensures that sole source procurement requests are properly justified and recorded.	The Materiel Management section will ensure that sole source procurement requests are properly justified and recorded and that the information is sent to DSS.
Examination of Financial Operations			
15.105	Proper controls over fixed assets and inventories, as recommended by the Treasury Board's Guide on Financial Administration, should be established to ensure that the Communications Research Centre's assets are adequately safeguarded.	A control system for fixed assets and inventories has been under development for the past year. Data on fixed assets and inventories are currently being input into a computer-based inventory control system to provide more effective control of assets.	The study concerning stockroom control activities has been completed. Implementation is contingent upon availability of resources.
15.107	The Centre's directive on private sector requests for research services should be strictly adhered to and approval of the rates to be charged for such services should be obtained from the Governor in Council.	Requirements for approval of work requests, including delegation of authority, are currently under review. Formal procedures will be clarified and adhered to. Approval by the Governor in Council of rate structures will be sought, as necessary, to ensure compliance with statutory requirements.	Governor in Council approval has now been obtained for the rates pertaining to the largest segment of services provided. The required review leading to implementation of the remainder of the recommendation is nearing completion.
15.109	In order to strengthen control over the Department's revenues, the cash receiving function should be segregated from other related functions. Alternatively, in cases where such segregation is not practical, the district manager should perform and document periodic spot checks of the operations.	The Department is presently studying the licence revenues and receivables function. Consideration will have to be given to other means of internal control where segregation of duties is not practical in the majority of district offices.	Procedures are documented in the Departmental Financial Administration Manual assigning responsibility to the officer-in-charge for those district offices where segregation of responsibilities is impossible/impracticable.

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF COMMUNICATIONS

Recommendations	Auditor General's 1978 Report	Department's Comments	Department's Comments As of August 31, 1979
15.111	Attendance reports should be prepared monthly for every employee.	The Attendance reporting system has been under scrutiny for a year now, and the new policies to be promulgated by the Deputy Head will improve managerial control in this respect. (The Department of Communications is, as are other departments in the Public Service, dependent on the new Attendance, Leave and Overtime Sub-system (ALOSS) being designed by the Treasury Board Secretariat to replace existing procedures.)	The Department of Communications is using the Attendance Leave and Overtime Subsystem (ALOSS) as prescribed by the Treasury Board to control the attendance, leave and overtime records of employees. A monthly report is prepared on each employee and submitted to the respective ALOSS clerk to update the files of all employees. At the end of the fiscal year, all employee files are submitted to DSS (Data Collector Division) and DSS produces an annual report to Treasury Board.
15.114	To ensure the maintenance of an accurate, efficient and economical accounts receivable system, the Agency should take the steps required to establish a fully computerized accounts receivable subsidiary ledger.	Effective October 1, 1978, action will be initiated to phase out the present obsolete system and equipment in favour of a fully computerized accounts receivable subsidiary ledger to be fully operational for fiscal year 1979-80.	A fully computerized accounts receivable system, now fully operational, was introduced April 1, 1979.
15.117	We support the plan to document systems and procedures peculiar to the Agency. Once such documentation has been established, it should be maintained on a current basis.	Action has been initiated to document the financial systems and procedures, peculiar to the Agency, in a section of the Departmental Financial Administration Manual. Target date for completion of the manual is April 30, 1979. Some delay may be encountered in the Agency portion, however, pending finalization of the Treasury Board revised policy on revolving funds.	The departmental Financial Administration Manual, which will contain financial policy and procedures peculiar to GTA, is now scheduled for completion by December 31, 1979. In addition, the Agency is developing a "Management and Operations Manual" that contains more detailed procedures with respect to the financial aspects of GTA operations. These manuals, when completed will be maintained on a current basis.

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE

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Organization and Role of the Financial Function

16.18 A review should be made of the responsibilities assigned to the Director General, Finance and Administration, to ensure that non-financial duties do not unduly hamper his ability to carry out his responsibilities as the Department's senior financial officer.

This is of continuing concern to departmental management and will be reviewed in the light of overall departmental priorities during 1978-79.

The Department has responded to this recommendation by moving the responsibility for the Office of Information from the Director General, Finance & Administration to the Deputy Minister's office. This was effected on August 22, 1979. Also, the responsibility for the Office of Departmental Review was transferred to the Deputy Minister's office effective January 15, 1979. Further study and refinements of the responsibilities of the senior financial officer are being considered, however, the changes already made should ensure that non-financial duties do not unduly hamper his ability to carry out his duties as the senior financial officer.

16.20 The senior financial officer should develop and issue instructions on aspects of financial administration and control carried out by employees who do not have full-time financial responsibilities.

Policies identifying the Senior Financial Officer's responsibilities for functional direction have been approved by the Management Committee. Instructions will be incorporated into the Finance Manual.

Appropriate instructions have been incorporated in the Departmental Financial Administration Manual. As new issues and changes arise, they are incorporated in the manual. As well, training sessions are continually being held to provide instruction on problem areas and to inform on policy and procedural changes.

16.22 The senior financial officer should assign specific individuals to continue to develop and implement the Operational Performance Measurement System.

Agreed. Steps are being taken to assign an officer to co-ordinate the Department's efforts in this area.

A Coordinator for Performance Measurement and Evaluation was appointed on November 1, 1978, under the responsibility of the Director General, Finance and Administration. Departmental policy places the primary responsibility for the implementation of performance measurement and evaluation on line management and the Coordinator's role is to provide practical advice and assistance to these managers and to coordinate the Department's effort to ensure the Department has an appropriate three year plan, which reflects departmental priorities and needs and Treasury Board requirements.

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE

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Recommendations

Machinery Branch - Management Controls

The Department should aim at making quantitative evaluations of all of its department-wide programs. The Machinery Branch should strive to extend the application and use of activity and effect monitoring for sectoral strategies and the advisory and service assistance it provides to the Machinery Sector.

The department-wide programs commented on by the Auditor General have now been revised or terminated following the audit carried out in 1976-77. The new department-wide program is the Enterprise Development Program. Responsibility for the quantitative evaluation of this program has been assigned to branches responsible for the management and assessment of the Enterprise Development Program.

The monitoring and assessment of "sector strategies" (Sector Profiles and Action Plans) will be carried out by and be the responsibility of the respective line managers. Sector Profiles and Action Plans, which are currently under development, will be monitored when approved by the Cabinet.

The Machinery Branch should investigate the consequences of incomplete and inaccurate information in its data bank on Canadian machinery manufacturing capabilities, determine appropriate standards of completeness and accuracy and take necessary steps to meet these standards.

16.38

As part of the Department's developmental effort in program evaluation and performance measurement, a feasibility study on performance measurement in the Industry Sector Branches (including the Machinery Branch) is currently underway. Implementations of performance measurement systems where feasible and future program evaluation in this area will address the questions raised.

A study by outside consultants of the administrative procedures pertaining to this program was recently completed. The results of this study are now being incorporated in a new data processing system which will facilitate improvements to the present standards of completeness and accuracy to reflect the dynamic changes in Canadian machinery manufacturing capabilities.

A current study by outside consultants of the administrative procedures pertaining to this tariff remission program will provide further evidence as to whether there is a need to improve present standards of completeness and accuracy to reflect the dynamic changes in Canadian machinery manufacturing capabilities.

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE

Recommendations	Auditor General's 1978 Report	Department's Comments	Department's Comments As of August 31, 1979
<p>16.40 The following procedures should be introduced on a temporary basis to determine their economic advantage:</p> <ul style="list-style-type: none"> - the number of application re-submissions should be reported and the causes analysed; and - the number of complaints and inquiries from applicants about their applications should be reported and categorized as to their causes. 	<p>As a matter of formal procedures under this Program, each re-submission is reviewed individually by the Machinery and Equipment Advisory Board as to its causes and consequences. Similarly, complaints and inquiries are monitored on an ongoing basis by the Secretariat to the Board. However, no formal report is prepared on these aspects of the program since no problem has arisen in this connection. Nevertheless, the Branch will initiate, on a temporary basis, a more formalized reporting system as suggested.</p>	<p>The Branch has established an ongoing reporting system on the number and causes of complaints and inquiries from applicants as suggested. The review indicates that more than 85% of inquiries received are for general information on the program and the status of applications under review.</p>	
<p>Internal Audit</p>			
<p>16.47 The head of internal audit should report directly to the Deputy Head.</p>	<p>Consideration will be given to this recommendation as the independence of the audit function is naturally of continuing concern to the Department. However, the need for a direct reporting relationship to the Deputy Minister must be considered in the context of the Department's overall organization.</p>	<p>The Office of Departmental Review, which is responsible for internal audit, has been reporting directly to the Deputy Minister since January 15, 1979.</p>	
<p>16.51 The Audit Committee should meet as soon as possible to establish written terms of reference for itself and to review, challenge and approve the 1978-79 internal audit plan.</p>	<p>Agreed. The Audit Committee met in July 1978.</p>	<p>The Departmental Audit Committee established written terms of reference for itself on July 27, 1978. This document is currently under review and may be modified prior to its inclusion in the Audit Manual.</p>	
<p>16.54 A model of the Department and related agencies should be prepared, showing all programs and activities that can be considered as potential audit candidates, as a basis for developing an internal audit plan. The model should be updated at least annually.</p>	<p>Agreed. Steps are being taken to implement this recommendation.</p>	<p>The 1979/80 internal audit plan was challenged, amended and subsequently approved by the Departmental Audit Committee on April 6, 1979.</p>	<p>A plan outlining all responsibility centres, programs and functions included in the audit universe has been established and included as part of the Departmental Internal Audit Plan. The plan is updated annually as part of the Audit Work Program preparation process.</p>

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE

<u>Recommendations</u>	<u>Auditor General's 1978 Report</u>	<u>Department's Comments</u>	<u>Department's Comments As of August 31, 1979</u>
16.57	The Office of Departmental Review should develop a policy which clearly establishes the criteria to be used in selecting possible audit areas and the timing and the extent of work to be completed.	Agreed. Steps are being taken to implement this recommendation.	The Office of Departmental Review has established written selection criteria. The criteria will be incorporated into the Audit Manual.
16.59	The audit plan should be supported by an individual memorandum on each assignment detailing the areas and issues to be addressed and the estimated audit time by audit function.	Agreed. Steps are being taken to implement this recommendation.	This system is in the planning stage. The Office of Departmental Review is developing a planning system which will provide supporting information on each assignment in the current year of the audit plan. The system will be finalized and introduced at the beginning of the 1980/81 fiscal year.
16.61	The Audit Branch should formalize its procedures, programs and practices and develop a comprehensive internal audit manual.	Agreed. A comprehensive internal audit manual is under development. Because of the relative newness of the Office of Departmental Review and the internal audit function in Industry, Trade and Commerce, it was decided that such a manual should not be finalized before the function had a chance to prove itself operationally. It is now planned that the audit manual will be completed by Spring 1979.	A plan for the development of a comprehensive audit manual has been established and much of the preliminary work has been completed. A partial manual will be issued internally by September 30, 1979. The complete manual is scheduled for completion by July 31, 1980.
Budgetary Control			
16.69	Executive guidelines or priorities should be communicated in writing, supplemented by discussions at each stage of the budgetary process, to ensure consistent interpretation.	Agreed. This will be implemented during the Work Program Process.	Departmental priorities were identified by Management Committee in January 1979 and incorporated into the Work Program letters. Further refinements will be made in the 1980/81 Budgetary Process.

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE

<u>Recommendations</u>	<u>Auditor General's 1978 Report</u>	<u>Department's Comments</u>	<u>Department's Comments</u> <u>As of August 31, 1979</u>
16.71	The Department should develop a long-term (e.g., five-year) plan which would identify intermediate goals and points of decision and would allow monitoring of progress towards longer range objectives.	While such a requirement is not called for by the guidelines set out by the Treasury Board, it will be given serious consideration during 1978-79.	A decision has been made to establish a Corporate Planning unit reporting to the Deputy Minister and a task force has been established to develop this unit.
16.73	Senior management should reinforce the Department's commitment to the work program system as an essential ingredient in the system of budgetary control by insisting that work programs be prepared in a manner that will ensure compliance with the system's purpose.	Agreed, this will be implemented during 1978-79.	Organization changes have been approved to establish a Work Program Analysis unit in the Financial Services Branch of the Department. This unit has not yet been staffed; however, one of its prime functions will be to improve the whole work program process.
16.75	Challenge committees should be established under each Assistant Deputy Minister to review work programs in detail, and financial officers assigned to programs should be members of these committees.	The feasibility of separate challenge committees and their membership will be assessed during 1978-79.	The viability of the recommended ADM Challenge Committees was tested during the last review of work programs. Departmental policy concerning such committees will be formulated prior to the 1980/81 work program review process.
16.77	Operating budgets should be prepared by month or quarter, so planned and actual results can be compared and changes in anticipated spending patterns can be detected immediately.	This recommendation will be given serious consideration.	Time-phased operating budgets have as yet not been established in the Department. The feasibility of such budgets is, however, being reviewed in concert with the review of the work program budgetary process.
16.79	Responsibility Centre Managers should be required to report at least annually on the results produced by each of the jobs included in their work programs and to explain differences between actual and anticipated results. Summarized versions of these reports would provide a useful means for Assistant Deputy Ministers to report to the Deputy Minister.	The mid-year review is in our view a more effective reporting opportunity as it permits modification and adjustment. In future, reporting every quarter may be introduced.	The 1979 Mid-Year review is in process. A year-end report of the same nature is being considered.

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE

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16.81 A program review process should be instituted by internal audit to ensure that branches are expending resources for the purposes indicated when budgets were approved.

This has been introduced and is the starting point for audits of individual Branch Activities.

This process has been initiated and forms the basis for comprehensive audits included in the internal audit plan.

Financial Reporting

16.86 To ensure that work programs represent an effective control mechanism, actual costs should be captured and reported on the same basis as work programs are prepared.

Costs will be captured by practical work program levels.

This recommendation is accepted and will be included as part of the overall review of the budgetary work program process with the view of capturing costs at practical program levels.

16.88 Actual program outputs should be reported in relation to planned outputs to assess whether objectives are being met and to facilitate corrective action.

Agreed, the introduction of regular reports of outputs will be introduced during 1978-79.

This recommendation ties in with a number of other recommendations concerning the up-grading of the work program process and will be addressed during the review of that process to be completed this year.

16.90 A variance analysis system should be developed requiring managers to explain significant variances in actual costs and outputs from the budget.

Agreed. Variance reporting procedures will be developed during 1978-79.

Managers report variance analysis at Mid-Term Review and decisions are made which allow for any necessary corrective action at that time; as well, the implications brought out in the review form part of the considerations for the following years' budgets.

16.92 Training in the use and interpretation of financial reports should be a vital element in the orientation of new managers and in refresher courses for existing managers.

Agreed.

Information concerning the use of financial reports is contained in the Financial Manual. As well, training courses for users are held on an as required basis. For example, a full day course was recently given all Administrative Officers as orientation to the new Financial Management Reporting Computer System.

16.95 Action to improve the centralized commitment accounting system should be continued. Once it is operational, the maintenance of commitment records within branches should be strongly discouraged by senior management.

The centralized commitment system has been implemented as part of the new computerized Financial Management Reporting System. Weekly and monthly reports are prepared and users have been briefed on the use and interpretation of the reports. In due course other systems will be discontinued.

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE

Recommendations	Auditor General's 1978 Report	Department's Comments	Department's Comments As of August 31, 1979
Electronic Data Processing			
16.100	The Department should create an executive Electronic Data Processing steering committee to approve annual and long-range plans and to determine and establish priorities for the Department's Computer Processing activities.	This recommendation will receive further consideration as the department systems and data processing responsibilities and organization evolve during 1978-79. For the present, although a formal EDP Steering Committee does not exist, the Director General, Finance and Administration, performs the preliminary review function. Major EDP projects are submitted for approval to the Department's Management Committee.	In July, 1979, the Department issued the Corporate Systems policy. Embodied in the policy is the creation of a Systems Coordination Committee, chaired by the Director of the Corporate Systems Branch, consisting of representatives from all service elements of the Department, who will review the Annual Systems Plan and provide recommendations to the Management Committee. The Department's System and Data Processing responsibilities are currently being reorganized to adhere to the new Corporate System Branch policy.
16.102	Senior officials of the Department should inform Department of Supply and Services that security clearance has not been obtained for the service bureaus processing its data and that one should be completed as soon as possible to ensure the confidentiality of information.	This has been done. The Royal Canadian Mounted Police conducted a formal audit and inspection of the data processing centre at Industrial Life Technical Services Inc. (IST) on February 28 through March 2, 1978. A verbal report received on March 2 indicated no problems were encountered.	Completed.
16.104	Procedures for off-premises storage should be formalized, implemented and enforced. These procedures should encompass all critical machine-readable files, instructions, standards manuals and other critical documentation.	Agreed. A secure off-site storage service is available for tape and disk files requiring a higher level of security and protection against fire, theft or unauthorized access.	Completed. A secure off-site storage service is used for tape and disk files requiring a higher level of security and protection against fire, theft or unauthorized access. Arrangements have been made with Public Archives for the storage of hard copy documentation, commencing October 1979.

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16.106 The Department should develop a computer equipment back-up plan to encompass all processing facilities, equipment, files and documentation.

Agreed. IST utilizes the services of Canadian Data Protection, an organization that has been security certified. All our production libraries are periodically copied onto tapes and stored in IST's off-site facilities. IST has made continuing arrangements with the Data Centre of IBM Canada Ltd., Montreal, such that their computing facilities can be used in the event of a disaster. Consistent with Management Systems Division (MSD) plans, contingency plans will be defined in MSD's new Standards and Guidelines Manual.

16.108 Projects to update existing systems documentation and procedures manuals should be completed and compliance should be enforced.

The MSD Standards and Guidelines have been rewritten and will be implemented in 1978. Compliance is enforced by the Project Management area of MSD, but this role will be assumed by the Quality Assurance group when it is formed later this year.

16.110 All programs, systems and program documentation should be under the control of a librarian.

All production libraries are under the control of the Technical Support group of MSD. Prior to the physical move of "test libraries" to "production libraries", a detailed review is carried out by the Technical Support group of all documentations which must conform to established standards before being moved to the production mode. The latter function will be taken over by a Quality Assurance group which will be created within MSD, as a reorganization and realignment of duties is effected later this year.

Contingency plans are being incorporated into the Department's EDP Standards and Guidelines Manual and will be completed by the end of October 1979. A formal SEIT audit will be performed by the RCMP in February 1980.

Completed. The new EDP Standards and Guidelines Manual, incorporating the Treasury Board guidelines on system development methodology and documentation, was implemented in June 1978. At that time, the Quality Assurance group was formed and they now enforce compliance with these standards. All existing systems are reviewed on an annual basis to determine their continued effectiveness and at that time the documentation is updated accordingly. A substantial effort was undertaken last fiscal year to upgrade the existing operational systems, procedures and documentation. This is an on-going function.

Completed. A Controlled Access Documentation Centre has been established with the documentation clerk responsible for the control of all documentation.

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE

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16.112 To provide more effective internal control, responsibility for certain closely related functions in the Management Systems Division should be adequately segregated, particularly in the area of Financial Systems.

The position of Data Base Administrator has been created and the Quality Assurance group will be established later this year. The other roles listed exist and will be more visibly separated with the afore-mentioned reorganization of MSD.

In line with the formation of the Corporate Systems Branch, a new organization has been defined that addresses segregated functions. All job descriptions have been reviewed and updated. Upon reclassification and staffing, an organization will be in place which provides more effective internal control and functional responsibility.

16.114 Procedures in the Department's Administrative Manual relating to user group involvement in Electronic Data Processing activities should be complied with and enforced.

Agreed. All new EDP projects must adhere strictly to the established procedures of having client users sign off at the end of each phase of the system's development life cycle.

Completed. The new policy on the formation of the Corporate Systems Branch has been included in the Administrative Manual. All new EDP projects adhere strictly to the established procedures of having client users sign off at the end of each phase of the system's development life cycle.

Grants and Contributions

16.121 Until suitable trained financial analysts are on site at each regional office, the Program Analysis Group should monitor the financial analyses at each regional office.

Procedures are in place for the monitoring and review of submissions by the Enterprise Development Branch. A review of existing monitoring and review procedures is being undertaken. These procedures will be modified as necessary.

The Regional Office Enterprise Development Boards have approval authority for projects requiring assistance of \$200,000 or less. All other projects are analysed and monitored at the central level by the Corporate Analysis Branch. The Department is continuing to staff the Regional Offices with financial analysts, as required. The existing monitoring and review procedures are still under review.

16.126 Senior officials of the Department should ensure that potential recoveries under the PAIT-1 program are analysed, policy issues are resolved and negotiations with all assisted companies are concluded as quickly as possible.

Agreed. This work is ongoing.

These recommendations are being actioned. Conditionally terminated projects have been approved for full termination; the remaining projects are being identified as successful or unsuccessful and the unsuccessful projects will be recommended for termination. A policy proposal is being prepared regarding the disposition of the successful projects.

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE

Recommendations	Auditor General's 1978 Report	Department's Comments	Department's Comments As of August 31, 1979
16.130 All projects in the holdback liability account should be reviewed and followed up and appropriate reports prepared for senior management.	Projects in the holdback account are reviewed and followed up. Provision has been made to produce holdback reports to facilitate follow-up action and permit a clear indication of what follow-up action is taken.		This recommendation has been implemented. This account has been reduced by 50% since January 1978.
16.132 Appropriate criteria should be developed for selecting and timing audits of contributions under this program.	All projects are audited when completed and reviews are made of company systems and records on large projects. Criteria will be established to identify those projects requiring interim reviews.	Alternative ways of reporting will be explored.	A study is currently being carried out to determine criteria which would identify projects requiring interim reviews.
16.135 The Department should discuss with the Treasury Board Secretariat and the Office of the Comptroller General improved disclosure of the financial operations of the loan insurance program in the Estimates and the Public Accounts.	This is being developed.		The Department adheres to the Estimates and Public Accounts Regulations for disclosure of loan insurance. This issue will presumably be explained during the Government's consideration of the implementation of the Lambert Report.
16.142 A memorandum of understanding should be prepared defining the responsibilities, duties, delegations of authority and detailed operating procedures of all parties involved in administering grants and contributions under the Grains and Oilseeds Program. Special emphasis should be placed on all aspects of financial management and control.	This will follow the Memorandum of Understanding.		Delegation of authority for the Grains and Oilseeds Program is operable in concert with all Departmental authority delegations. Negotiations to further refine procedures, where necessary, for these programs have taken place and upon agreement between all parties, necessary changes to procedures will be made. The remaining programs will be handled the same way.
16.144 The Department should reconsider the basic nature of its relationship with the various provincial wheat boards and develop an appropriate system for verifying figures they report.			The program referenced in this recommendation concerning relationships with Provincial Wheat Boards has been discontinued. The Department has program dealings now only with the Canadian Wheat Board.

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE

<u>Recommendations</u>	<u>Auditor General's 1978 Report</u>	<u>Department's Comments</u>	<u>Department's Comments As of August 31, 1979</u>
<p>16.146 The Department should request the Canadian Wheat Board to prepare an annual accounting of contributions and their disposition and that this accounting be subject to audit by the external auditors of the Canadian Wheat Board. The auditors should formally report to the Deputy Minister of the Department on the results of their examination.</p>	<p>This request will be drawn to the attention of the Chairman of the Wheat Board.</p>		<p>This has been brought to the attention of the Chairman of the Canadian Wheat Board. At the present time, the audit of the payments for the program referenced is performed by the auditors of the companies concerned.</p>
<p>16.148 In view of the significance of grants and contribution payments under this program and the reliance being placed on effective systems of financial control in the boards, the Department should undertake regular audits at both the miller and the board levels. These audits might be arranged in such a way that there is participation by either the external or internal auditors of the respective wheat boards.</p>	<p>Payments under the Two-Price Wheat Program are made on the following basis:</p> <ol style="list-style-type: none"> 1. Canadian Wheat Board - <ul style="list-style-type: none"> - Individual claims are certified by external auditors. 2. Ontario Wheat Producers Marketing Board - <ul style="list-style-type: none"> - Claims received are subject to adjustments through the audit carried out by external auditors annually. - An audit was last carried out by Financial Services Branch in February 1977. 3. Quebec Producers and Nova Scotia Wheat Marketing Board - <ul style="list-style-type: none"> - The amounts claimed by the producers are verified to the amounts reported by the agents and these in turn are verified to the amounts reported by the millers. - In 1976 Financial Services Branch carried out an audit of the Quebec Producers. 		<p>An audit for the referenced program was carried out by Departmental auditors in 1979. Noted in the 1978 report, audits were also carried out at other provincial boards. This program has now been cancelled.</p>

The need for additional audits by the Department will be looked into and provided for in the audit plan as required.

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE

<u>Recommendations</u>	<u>Auditor General's 1978 Report</u>	<u>Department's Comments</u>	<u>Department's Comments As of August 31, 1979</u>
16.153	Financial review procedures should be standardized to ensure consistency and completeness in the financial review of all applications by shipbuilders.	Standard review procedures will be available by September 1, 1978.	Standard review procedures were implemented in the Department in August, 1978.
16.155	Major commitments should be signed by the Assistant Deputy Minister responsible for the Shipbuilding Industry Assistance Program.	With very few exceptions, all ship commitments are "major". It is felt that delegation at the Director level is, considering the nature of the program, appropriate.	Commitments are signed by the Director General of the appropriate branch.
Promotional Projects Branch - Fee Revenue			
16.158	The Department should immediately prepare a submission to the Treasury Board to obtain authority for continuing to charge fees to participants in trade fairs.	The amount collected is not considered a fee but the reimbursement of a share of the fair costs. The Department is, however, preparing a Treasury Board submission to clarify this issue.	The procedures have been changed. A deposit is now collected from the fair participants, deposited in a Deposit and Trust Account and an agreement signed which provides for the return of the deposit if the terms of the agreement are met. If the terms of the agreement are not met, the deposit, or portion thereof is deposited in the Consolidated Revenue Fund.
16.162	The Department should immediately prepare a submission to Treasury Board to clarify and obtain ratification of its current practices of using performance fees to reimburse companies participating in its trade fairs for a portion of their transportation costs.	A Treasury Board Submission will be prepared.	The practice mentioned in the recommendations has been cancelled and therefore there is no need to obtain Treasury Board approval for it.

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF NATIONAL HEALTH AND WELFARE

<u>Recommendations</u>	<u>Auditor General's 1978 Report</u>	<u>Department's Comments</u>	<u>Department's Comments</u> As of August 31, 1979
Role of the Financial Function			
17.41	<p>The role of the financial function should be clarified and the implementation of the newly established policies closely monitored to ensure that:</p> <ul style="list-style-type: none"> - they are appropriately interpreted and applied in practice; - the Assistant Deputy Minister, Administration, is able to perform the functions of senior financial officer effectively; and - the responsibilities, organizations and staff of the Director General, Financial Administration and the Director of Internal Audit fully support the responsibilities of the Assistant Deputy Minister, Administration and enable him to provide comprehensive, objective advice on departmental resource management. 	<p>Agreed. The draft policy statements on the organization of the financial administration function will, when approved by the Executive Committee, provide a clear and accepted basis on which the Assistant Deputy Minister, Administration, and his key financial officers can perform effectively.</p>	<p>Policy statements on the organization of the financial administration function, in terms of the roles and managerial relationships of its corporate, branch and regional components, were approved by the Executive Committee and promulgated in June 1979. An existing policy statement on the role of the Internal Audit Directorate was revised and promulgated in April 1979.</p>
17.42	<p>The appropriateness of the existing organizational arrangements should be subject to a comprehensive review after a suitable trial period.</p>	Agreed.	<p>It is intended to evaluate these policy statements in about two years time.</p>
17.47	<p>A comprehensive plan should be developed to identify needs, establish priorities and make improvements to the financial management, control and performance measurement systems.</p>	Agreed.	<p>The Department is currently developing a comprehensive plan for strengthening its management practices, at both the corporate and branch levels, with respect to all aspects of planning, control, management, evaluation and audit. This plan, which is scheduled for completion by October 1979, will encompass this and other applicable Auditor General's recommendations.</p>

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF NATIONAL HEALTH AND WELFARE

Recommendations	Auditor General's 1978 Report	Department's Comments	Department's Comments As of August 31, 1979
17.50 To the extent that the role of the financial function may be better understood and accepted throughout the Department, consideration should be given to revising the titles of senior financial officers; the titles, Departmental Comptroller and Branch Comptrollers are suggested.	An assessment of the adequacy of the titles of senior financial officers at the departmental and branch levels will be incorporated in the review mentioned in paragraph 17.42.	To be dealt with as part of the evaluation in response to paragraph 17.42.	
Internal Audit			
17.65 The Internal Audit Directorate should continue its efforts to ensure that: <ul style="list-style-type: none"> - all authorized man-years are used; and - it acquires appropriate EDP audit capability. 	<p>The Directorate has developed a staffing plan which is being executed and, as in the past and current year, all authorized man-years will be used.</p> <p>As part of the staffing plan the EDP audit capability has been improved and provision made for special audit orientation and training sessions.</p>	<p>The Directorate's staffing plan ensures the realization of both objectives that:</p> <ul style="list-style-type: none"> a. Person-years are fully used, as was the case in the past two fiscal years; and b. EDP capability of the Directorate has been expanded through the staffing of two individuals with EDP expertise. 	
17.67 The Directorate should re-examine and amend its plans for the benefit payment systems audits to: <ul style="list-style-type: none"> - ensure that the Directorate has a comprehensive understanding of the payment systems before any aspect of the field work is contracted out to Audit Services Bureau or others; - ensure that it has an appropriate involvement in systems amendments; and - detail the nature and extent of the coverage necessary to ensure that key elements of all systems are audited annually. 	<p>The Directorate's plans have been amended and it intends to acquire a comprehensive knowledge of the payment systems prior to contracting out. In fact, this is being pursued during the audit of the Alberta Region, Income Security Programs Branch, this year.</p> <p>The Directorate's revised role statement provides for involvement in systems design and amendments.</p> <p>Determination of the nature and extent of coverage necessary is an integral part of the operational plan for the acquisition and development of an EDP audit capability in the Directorate.</p>	<p>The Directorate's new role statement effective April 1, 1979, provides for involvement in system design and amendments. The Directorate's plans have been amended and payment systems audits have been conducted in the Alberta and Atlantic Regions of the Income Security Programs Branch. The overall approach developed by the Directorate includes the coverage necessary to ensure that key elements of the systems are audited annually.</p> <p>Action with respect to this recommendation is considered complete.</p>	

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF NATIONAL HEALTH AND WELFARE

<u>Recommendations</u> <u>Auditor General's 1978 Report</u> <u>Department's Comments</u> <u>As of August 31, 1979</u>			
<p>17.70</p> <p>The Directorate should regularly evaluate all audit activities under the direct control of program officials, including the work of any contracted audit groups involved in the verification and control of contributions.</p>	<p>Program officials currently provide the Directorate with copies of contracts, prior to signing, between the Department and any external agency. As part of normal audit coverage the Directorate examines the adequacy of audits performed on behalf of program officials. In addition, guidelines are being developed to assist program officials in establishing suitable standards and scope in contract audit work.</p>	<p>The Directorate continues its practice of reviewing all audit contracts which program officials enter into with audit agencies, including groups involved in the verification and control of contributions, and provides advice and assistance in these matters. Review of the quality of work performed is part of the Directorate's program audit.</p>	<p>Action with respect to this recommendation is considered complete.</p>
<p>17.71</p> <p>The Directorate should communicate with legislative auditors whose work is being relied on by the Department.</p>	<p>The Directorate has had communication with legislative auditors when circumstances required it. The Directorate is prepared to continue this action in any set of circumstances in which it would appear beneficial. In normal circumstances, however, the regular line of communication through program officials should continue.</p>	<p>The Directorate's previous comments outline its position with respect to this recommendation. No specific program of action is required to address the recommendation.</p>	<p>The Directorate's Handbook of Standard Practices and Procedures has been revised and now contains specific instructions on the items addressed in the recommendation.</p>
<p>17.73</p> <p>The Internal Audit Directorate should update its manual and procedures emphasizing the need to strengthen and maintain documented evidence of supervision and file review to provide greater assurance that significant areas of audit or audit observations are not omitted.</p>	<p>The Directorate's revised Handbook of Standard Practices and Procedures will contain specific instructions to meet these requirements.</p>	<p>Action with respect to this recommendation is considered complete.</p>	

Auditor General's 1978 Report

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and Benefits Controls

17.83 Controls over implementing and maintaining computer systems and files should be improved to ensure that:

- existing computer programs are properly documented;
- all systems and program amendments are subject to appropriate authorization and controls by the responsible users, systems analysts, data processing management and financial officers; and
- adequate arrangements exist for emergency computer processing and offsite storage of backup files.

Agreed. Certain improvements in control procedures and documentation have already been made; others are currently being implemented or are under study by the Department of Supply and Services and this Department. Negotiations to acquire emergency computer back-up and off-site storage are in process.

Extensive modifications are being made to the system of processing CPP benefit payments. The various computer programs for the revised systems are being documented as work progresses. Documentation for other segments of the system which have not been modified is under review.

Procedures to provide effective control over systems and program amendments, including appropriate authorization are now being implemented.

Arrangements for emergency back-up processing for cheque issue have been made. Offsite storage for back-up files has been arranged on an interim basis and appropriate computer tapes were moved to the new location in April 1979. Permanent arrangements are being negotiated for long term, offsite storage. Negotiations are still continuing for back-up processing for benefit calculations and accumulated earnings and contributions.

17.89 A study should be made to examine the benefits and costs of alternative ways of improving the manual and computer controls over contributory earnings records and of identifying and correcting any errors that may be on file. Manual and computer program controls should be introduced to ensure that:

- all error corrections will be authorized by persons other than those involved in submitting corrections and after batching or equivalent accounting controls have been established;

Agreed in principle. The cost and benefits of alternative courses of action to improve existing controls are now being studied jointly by this Department and the Department of Supply and Services. This includes improvements in areas such as authorization of error corrections, review of reconciliations and key controls, and documentation of policies, procedures and controls.

With regards to the first, third and fourth subparagraphs of this recommendation, (independent authorization supervisory review, documentation of procedures) it has been concluded that as an initial step, a reorganization of responsibilities between National Health and Welfare, and Supply and Services should take place. Accordingly, certain functions now being performed by Supply and Services will, after consultation with appropriate staff associations, be transferred to National Health and Welfare. Comprehensive procedures will then be documented and applied.

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF NATIONAL HEALTH AND WELFARE

<u>Recommendations</u> <u>Auditor General's 1978 Report</u>	<u>Department's Comments</u> <u>As of August 31, 1979</u>
<ul style="list-style-type: none"> - independent check and reconciliation procedures are maintained to confirm that the number and dollar value of transactions received from National Revenue - Taxation will be accounted for after the final update of the earnings and contributions master file, and the detailed contribution records will be in agreement with the monies received and the principal accounting records; - reconciliations and key control conditions will be checked by independent staff and reviewed and approved by supervisors; and - policies procedures and controls will be comprehensively documented and communicated to the staff involved and applied in practice. 	<p>In as far as the second paragraph is concerned, extensive analysis of constraints and possible solutions has been carried out by a joint task force or representatives from National Health and Welfare, and Supply and Services. An interim reconciliation methodology has been developed in conjunction with the staff of the Auditor General's Office, and has been applied on a trial basis. The Auditor General's staff has indicated that they are satisfied that the initial approach taken is appropriate. Further work by the task force is continuing to identify the systems and procedural changes needed in the departments of Supply and Services, National Revenue - Taxation, and National Health and Welfare to enable ongoing reconciliation to take place.</p>
<p>17.92 Accounting or batch controls over benefit applications and change orders should be established before authorization of these input documents and the important reconciliations of input control totals to updated master files and the principal accounting records should be subject to independent check and supervisory approval.</p>	<p>The cost and effectiveness of establishing document and accounting controls prior to the verification and authorization process for benefit applications and change orders has been reviewed in consultation with senior members of the Auditor General's Office. It has jointly been concluded that the most cost-effective alternative is to direct resources to post-audit activities in order to strengthen financial controls e.g. use of statistical sampling to detect anomalies or accounts with unusual characteristics.</p> <p>As noted in the response to recommendation 17.89, improvements concerning independent checks and supervisory approvals of reconciliations will be implemented once the re-alignment of duties and responsibilities involving National Health and Welfare and Supply and Services is completed.</p>

Recommendations	Auditor General's 1978 Report	Department's Comments	Department's Comments As of August 31, 1979
Family Allowance and Old Age Security-Benefit Controls			
17.99 Document and accounting controls should be established before the key steps in the verification and authorization process and, where this is not economic or feasible, post-audit programs to monitor the significance of the weaknesses should be improved.	Agreed.		As noted in the response to recommendation 17.92, it has been concluded that the establishment of accounting controls prior to verification and authorization would be prohibitively expensive and would not provide significant improvement in control. As a result, the Department is proposing to direct available resources towards post-audit type of reviews.
17.101 Controls over reconciliations and follow-up procedures on exception reports should be made more reliable through improved procedural documentation, training and supervisory review.	Agreed.		Regional Management has been instructed to ensure appropriate supervisory review of reconciliations and exception reports; written procedures will be prepared to provide appropriate documentation and material for staff training.
17.103 Procedures should be developed to confirm that control over standing data on computer files is being properly maintained, including measures such as: <ul style="list-style-type: none"> - systematically test-checking selected records of beneficiaries to source information; and - periodically scanning the master benefit files for unusual items. 	Agreed. A number of steps have already been taken to systematically assess the validity of data on computer files, including measures such as those recommended. Continued strengthening of these control mechanisms is under way.		Further developmental work has been carried out to strengthen existing post-audit activities. Specific projects planned for implementation in 1979-80 include the systematic test checking of selected records to source documents, and the periodic scanning of accounts for unusual characteristics.
Canada Assistance Plan			
17.126 The plans and progress of program officials in giving effect to legislative changes should be independently reviewed and periodically monitored to ensure that all practicable action is being taken to expedite and maintain control over the establishment of cost information required.	The Department agrees that an independent review of the financial administrative aspects of action being taken to effect legislative changes is justified.		The Canada Assistance Plan Directorate is aware of the requirement to provide the ADM, Social Service Programs and the Director General, Financial Administration with progress reports on the implementation of legislative changes. In view of the withdrawal of the proposed Social Services Financing Act, and the fact that the first phase of implementation of the Established Programs Financing regulations has not yet been completed, no such reports have been required to date.

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF NATIONAL HEALTH AND WELFARE

Recommendations	Auditor General's 1978 Report	Department's Comments As of August 31, 1979
<p>17.133 Subject to the need to obtain and allocate experienced staff resources, management should initiate a program to:</p> <ul style="list-style-type: none"> - develop comprehensive systems documentation relative to the public assistance program that will continue under the Canada Assistance Plan; - provide more active direction and supervision to the contract audits performed on behalf of program management; - ensure that the work of Field Representatives and contract auditors are reviewed by Departmental Internal Audit; and - ensure that there is an effective, independent monitoring process to confirm that program management continues to take all possible effective action to ensure program and client eligibility, resolve unsettled accounts and recover overpayments. 	<p>The Department agrees in principle with the first two parts of this recommendation. Subject to the availability of resources, plans for improving documentation and clarifying direction to contract auditors will be developed within the next twelve months. In terms of priority, program management must first consider the costing problems associated with the two new major legislative actions (Federal-Provincial Fiscal Arrangements and Established Programs Financing Act, 1977, and the Social Services Financing Bill tabled in the House of Commons in May 1978).</p> <p>Internal Audit Directorate will continue its cyclical reviews of the work of Field Representatives and contract auditors, and the scope and frequency of these reviews will be increased as a result of the recent augmentation of Internal Audit resources. In addition, the Internal Audit Directorate will continue to support activities of program management, by providing advice regarding audit policies and audit contracts, as required.</p> <p>The Director General, Financial Administration is responsible for ensuring that financial controls are developed and are in place in this regard. The normal management process involving:</p> <ol style="list-style-type: none"> interaction of program management with Assistant Deputy Minister, Social Service Programs Branch and the Deputy Minister; cyclical reviews by the Internal Audit Directorate; and 	<p>The Canada Assistance Plan Directorate has developed an action plan which aims at the completion of systems documentation and development of improved direction and supervision to the contract audits by March 1981, in accordance with the first two parts of this recommendation. Progress to date has been hampered by a lack of experienced staff, as well as by the withdrawal of the proposed Social Services Financing Act which has significantly increased the complexity of this project.</p> <p>Other than a continuation of existing practices in relation to the internal audit and independent monitoring processes, as outlined in the Department's comments on parts three and four of this recommendation, no further action is considered necessary.</p>

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF NATIONAL HEALTH AND WELFARE

RecommendationsAuditor General's 1978 ReportDepartment's CommentsDepartment's Comments
As of August 31, 1979**Health Care**

17.143 Payments made under the Federal-Provincial Fiscal Arrangements and Established Programs Financing Act, 1977 and allocated to the Health Care and Post-Secondary Education Programs, should be supported in the Estimates and Public Accounts by a comprehensive schedule providing cash and non-cash costs and comparative information reflecting payments under the previous fiscal arrangements for Hospital Insurance, Medical Care, Extended Health Care Services and Post-Secondary Education.

- c. periodic assessment of the adequacy of the system of financial controls;
is considered sufficient for the purpose of ensuring that program management is taking all possible effective action on an ongoing basis.

Agreed in principle. This recommendation will be brought to the attention of appropriate officials of the Departments and central agencies concerned.

Revised formats for presentation of the Estimates and Public Accounts are being developed jointly by the Treasury Board Secretariat and Comptroller General's Office. The Auditor General's recommendation will be considered in the course of revisions to this Department's presentations as necessitated by central agency direction emanating from the results of that study. In the meantime, the Department will ensure that the TBS/CGO task group involved, as well as the Secretary of State and Finance Departments, are aware of this recommendation.

Medical Services

17.155 The budget preparation process should be strengthened by:

- improving the central directions to be followed in preparing operational budgets, standards of financial analysis and information to accompany budget submissions, policies and guidelines on program matters, such as the nature and level of services to be provided; and

Extensive inter-branch and inter-departmental consultations are being conducted continuously with the aim of improving policies and guidelines on program matters. For example, these consultations have recently resulted in the promulgation of a revised policy on non-insured medical care costs under the Indian Health Services Activity.

As part of a Department-wide exercise to strengthen management practices, the Branch has developed a plan to improve upon its existing practice as outlined in the Department's comments on these recommendations. This plan involves reviewing and strengthening both the short and long term planning process, improving the integration of the financial and operating planning cycles, and the preparation of a Branch Program, Planning and Budgeting Manual.

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- ensuring that the Branch Financial Adviser is responsible for performing a detailed review and challenge of budget documentation to establish the reliability of the information as a reflection of operating plans and as a basis for establishing accountability and monitoring performance.

Guidelines to branch managers establishing the methodology for budget submissions and the required standards of financial analysis are reviewed annually and discussed in detail at Regional Financial Workshops and Regional Directors' meetings. The Branch recognizes that further improvements are possible in this area.

The role of the Branch Senior Financial Officer in supporting the detailed review of budgets by senior program managers is recognized. For example, senior program managers and the Branch Senior Financial Officer have recently performed an exhaustive review of branch operational budgets wherein all regional budgets and operational plans were rigorously challenged. A group of senior program managers, chaired by the Branch Senior Financial Officer reporting to the ADM, continues to review and challenge all resource allocation submissions for the Branch.

- 17.157 Revenues for hospital care recovered from provincial hospital insurance plans should be under continuous review and analysis by the Branch Financial Officer to ensure that:
- Regional Management involved in negotiating per diem and service rates is provided with complete and accurate cost information; and
 - possible inequities or anomalies in per diem and service rates are brought to the attention of senior branch or departmental officials.

Regional Management have always been provided with complete and accurate cost information in this regard, and will continue to be so provided as an integral part of the financial administration of the region.

Resolution of inequities or anomalies in per diem and service rates is achieved through continuous negotiations in the normal Federal-Provincial consultative process.

Other than a continuation of existing practice, as outlined in the Department's comments on these recommendations, no further action is considered necessary.

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF NATIONAL HEALTH AND WELFARE

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Fitness and Amateur Sport

17.162 The role of the Branch's financial function should be closely monitored to ensure that planned systems improvements are effectively implemented and that the function will receive the necessary leadership and staff support in the future.

The Director General, Financial Administration will continue to work closely with Branch personnel in this regard. Monitoring of the development of systems improvements will continue as implementation progresses to ensure that financial controls are strengthened, and that sufficient resources are available.

- The contribution system has been revised and implemented.
- Financial analysts have been hired to participate in the preparation of project terms and conditions and to provide assistance to the sport and recreation associations.

N.B. Since the Fitness and Amateur Sport Branch is now the responsibility of the Secretary of State Department, the monitoring of the Branch's financial function will be reinforced by its functional relationship to the Department's Finance Branch whose Director General is a member of the Senior Management Committee as well as the Assistant Under Secretary of State responsible for Fitness and Amateur Sport.

17.166 The procedures for performing and monitoring the verification of contributions should be based on:

- formal agreements with recipients specifying the terms and conditions of the contributions;
- formal plans and audit programs to ensure consistent and objective standards of audit; and

Agreed. Subsequent to the Auditor General's audit, the Branch has adopted a policy of requiring written acknowledgement from recipients in the form of agreements specifying terms and conditions of the contributions.

In addition, Branch audit plans and work programs are being improved and formal reporting procedures and supervisory controls are in place to ensure that available audit resources are used as effectively as possible.

See 1978 Comments.

An audit policy and plan have been documented and implemented. To date twenty-five associations have been audited under the plan. To conform to the Branch objective of auditing each association once every three years there will be an acceleration of this activity.

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF NATIONAL HEALTH AND WELFARE

Recommendations	Auditor General's 1978 Report	Department's Comments	Department's Comments As of August 31, 1979
<ul style="list-style-type: none"> - formal reporting procedures and supervisory controls to ensure that audit activities remain timely, any required corrective follow-up action is taken, and the results of the audit activity are communicated to Branch officials. 			<p>Provision for these requirements is made in the Branch audit plan. Financial Analysts are now on staff and a major function is for them to follow-up on audits with a view to assisting recipient associations who have difficulties.</p>
<p>17.168 Financial policies, responsibilities and procedures should be comprehensively documented and communicated in manuals for use within the Branch and by recipients of contributions.</p>	<p>Agreed.</p>		<p>A policy and procedures manual governing the Branch's contribution system has been completed.</p> <p>Terms and conditions governing the contributions to each class of recipient have been completed and approved by Treasury Board.</p> <p>Guides to assist recipients in applying for and accounting for contributions have been completed and put into use.</p>
<p>17.172 Further improvements to the budgeting, project approval and management information systems should ensure that:</p>		<p>Subsequent to the Auditor General's audit, a new activity structure has been approved by the Treasury Board Secretariat and this structure, combined with the new contribution control process will effectively establish financial responsibility and authority of program officers. In addition, revised budgeting and reporting procedures are being developed in order to provide the basis for more effective integration of objectives, plans, budgets, resource allocation decisions and performance measurement, and hence improve the financial advice and information available to senior management.</p>	<p>The contribution system as documented does align activity classifications, project accounting records and organization structures.</p>
<ul style="list-style-type: none"> - activity classifications, project accounting records and organization structures are effectively integrated so the financial responsibility and authority of program officers can be established and monitored; 			<p>Several meetings with representatives of the Comptroller General's Office have started developments towards an evaluation plan. No firm results are in evidence yet.</p>
<ul style="list-style-type: none"> - budgets are comprehensive and as clear a reflection of objectives, operating plans, resource allocation decisions and criteria for measuring performance as is feasible at the time of their preparation; 			<p>The current system which is mechanized provides a broad spectrum of information in a timely fashion. Ongoing activities will of course, pursue sophistication.</p>
<ul style="list-style-type: none"> - the senior financial officer will be in a position to provide the Assistant Deputy Minister with more complete and reliable advice and information on all financial matters; and 			

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF NATIONAL HEALTH AND WELFARE

Auditor General's 1978 Report	Recommendations	Department's Comments	Department's Comments As of August 31, 1979
<p>- appropriate consideration is given to potentially more efficient ways of directing financial support than the existing project-based contributions, to recipients with good planning and financial management systems.</p>		<p>The Branch is initiating a project to identify and assess the practicality of alternatives to project based contributions.</p>	<p>Financial Analysts have been hired as of June 1979. One of their functions is to review the management and accounting capabilities of recipient organizations to determine which are sufficiently sophisticated to effect a sustaining contribution support. At present a small number of associations are being considered for implementation for the 1980-81 fiscal year.</p>
<p>Payroll</p>			
<p>17.178 Functional direction and financial control over pay administration should be strengthened by:</p> <ul style="list-style-type: none"> - clarifying and communicating the responsibilities and authorities of the key participants in the systems of pay administration; and - ensuring that the Personnel Administration and Financial Administration Directorates have the appropriate staff resources and reporting relationships in place to provide effective functional direction. 		<p>Agreed. The Department is in the process of clarifying the roles and responsibilities of managers, personnel officers, and financial officers with respect to pay administration, as part of its overall response to T.B. Circular 1977-37. Discussions with T.B. officials, concerning the transfer of resources to the Department in order to carry out the verification of pay input documents required by the T.B. Circular, are still in progress. Also the Department will examine the additional resource requirements necessary to provide more effective functional direction.</p>	<p>The roles and responsibilities of managers, personnel officers, and financial officers with respect to pay administration have been identified and communicated through the promulgation of policy in the Departmental Financial Management Manual. Staff resource requirements and reporting relationships of both the Personnel Administration and Financial Administration Directorates have been examined in light of the regionalization of the Department's personnel administration function, the decentralization by DSS of their pay accounting services and the revised policy concerning financial control over pay administration, and are considered adequate at the present time.</p>
			<p>Discussions are continuing with Treasury Board officials concerning the transfer of resources to this Department from DSS in order to carry out the verification of pay input documents in the event that this function is transferred to departments as planned.</p>

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF NATIONAL HEALTH AND WELFARE

<u>Recommendations</u> <u>Auditor General's 1978 Report</u> <u>Department's Comments</u>	<u>Department's Comments</u> <u>As of August 31, 1979</u>
17.181 Comprehensive standards and instructions for the financial control over payroll source documents should be developed and communicated throughout the Department.	<p>A comprehensive reference and training manual for pay and benefits clerks has been put in place, and a complementary training package developed. Training seminars have already been presented covering 40% of the Department, and these will continue in conjunction with the regionalization and decentralization activities. Related financial control procedures have been developed, and are being tested in two pilot projects during this fiscal year.</p>
17.184 Payroll accounting systems should be improved to provide the necessary audit trails to enable reconciliation from source documentation to the payroll records and to the principal accounting records.	<p>The practicality of developing audit trails and reconciliation procedures as envisaged by the Auditor General will be considered as part of the pilot projects referred to above.</p>
Grants and Contributions for National Welfare, Family Planning and National Health Research and Development	
17.193 Because of the lack of segregation of duties among program officers and financial officers within these programs, the Headquarters financial and internal audit functions should develop a program to ensure that there is effective independent monitoring of the financial controls over these grants and contribution programs.	<p>As indicated in the Department's initial comment the problem identified has been resolved and the review and up-date of financial signing authorities is a continuing process.</p>

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF NATIONAL HEALTH AND WELFARE

<u>Recommendations</u>	<u>Auditor General's 1978 Report</u>	<u>Department's Comments</u>	<u>Department's Comments As of August 31, 1979</u>
Medical Research Council			
17.198 Financial responsibilities and procedures should be comprehensively documented and there should be an experienced senior financial officer without major program responsibilities reporting directly to the President.	A financial administration manual is in preliminary draft form. A senior financial officer reporting to the President and without major program responsibilities would be desirable but is not immediately feasible. In view of current restrictions on expansion implementation will necessarily be deferred.		The Medical Research Council Financial Manual is in the final draft stages and should be ready for distribution in January 1980 (English version). The Director Finance/Administration is assisted by an experienced full time Financial Officer with eleven years experience with the Council. In view of current restrictions on expansion, the appointment of an experienced senior financial officer without major program responsibilities has been deferred.

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF NATIONAL REVENUE - CUSTOMS AND EXCISE

<u>Recommendations</u>		<u>Auditor General's 1978 Report</u>	<u>Department's Comments</u>	<u>Department's Comments</u> As of August 31, 1979
STUDY OF PROCEDURES IN COST EFFECTIVENESS				
Measurement of Program Effectiveness				
18.50	The Department should develop effectiveness indicators for the "Examination and Control of Commercial Operations" sub-activity so that its contribution to program objectives can be measured.	Agreed. The Department is continuing to evaluate its operations for the purpose of establishing satisfactory procedures to measure and report on effectiveness.	Development of effectiveness indicators for the commercial examination process was initiated in 1979. Indicators for all aspects of the Customs function are being developed. Development has already commenced in the program areas of passenger, assessment, and tariff relief. An essential element of measuring program effectiveness is a monitoring and reporting system to provide feedback on examinations and related efficiency and effectiveness data. Such a system has been developed and approved by management for field testing in two pilot regions during October and November.	
Measurement of Operational Performance				
18.56	As part of the Department's current efforts to develop a revised approach to performance measurement, it should place greater emphasis on clearly defining appropriate outputs and establishing work standards at a number of key work locations which will contribute to the development of a set of national standards and to the improvement of management reports.	Agreed.	Many indicators have been identified, and combined with work standards as applicable, will become components of an overall performance measurement system to be implemented in stages throughout the period 1979 to 1982. In defining the system, work standards will be identified and used where appropriate.	

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF NATIONAL REVENUE - CUSTOMS AND EXCISE

Recommendations	Auditor General's 1978 Report	Department's Comments As of August 31, 1979
CONTROLS IN THE CUSTOMS REVENUE SYSTEM		
Controls over Examination and Inland Movement of Goods		
18.63 The Department should:		
<ul style="list-style-type: none"> - evaluate alternative approaches to conducting the examination selection process to determine the most appropriate method of measuring non-compliance. Such approaches could be based on a combination of statistically valid sampling techniques, profiles and intelligence information; 	<p>Agreed. High priority has been given to this in departmental plans.</p>	<p>The development of carrier and importer profiles and intelligence information is scheduled for 1979. Additionally, an automated condition file and entry retrieval system to assist in the selection of goods for examination is under development. The development activity will be concluded within fiscal year 1979/80 with implementation in stages through 1980/81.</p>
<ul style="list-style-type: none"> - develop an improved system of documenting the results of the examination process and ensure that it is implemented consistently on a national basis. This information should form the basis for improved communication between the Customs Inspector and the Commodity Specialist; 	<p>The Department agrees that even greater emphasis be given to ensuring that policies are consistently applied on a national basis.</p>	<p>A standard examination report form to document the results of examination will be implemented in 1979. This form will provide feedback on examinations and related efficiency and effectiveness data, as well as serve as a communication link between the Customs Inspector and the Commodity Specialist. Testing of the form will take place during October and November. An evaluation report will be submitted to management in January 1980 with national implementation to follow.</p>

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF NATIONAL REVENUE - CUSTOMS AND EXCISE

<u>Recommendations</u>	<u>Auditor General's 1978 Report</u>	<u>Department's Comments</u>	<u>Department's Comments As of August 31, 1979</u>
<ul style="list-style-type: none"> - re-evaluate the post-audit carrier system to determine whether it achieves acceptable levels of effectiveness in detecting and deterring error or fraud; and - establish selective tests to determine the impact of weaknesses in the declaration process and the most cost-effective method of implementing controls. 	<p>Agreed.</p> <p>The Department will continue to review the declaration process periodically and make such changes as are justified by cost-benefit analysis.</p>	<p>The Preliminary Recommendations report on a post-audit carrier study was accepted by Senior Management in early 1979. Final recommendations are due in late 1979.</p> <p>A commercial enforcement and control study incorporating this recommendation is in progress and will be completed in 1980.</p>	
Cargo Control Documentation			
18.69 The Department should assess the impact of existing control weaknesses on revenue collection and re-evaluate the control needs in this area, with emphasis on document control, supervision, reconciliation and reporting.	<p>The Department will continue to review Revenue Collection procedures periodically and make such changes as are justified by cost-benefit analysis. Re-evaluation of the control needs with emphasis on document control, supervision, reconciliation and reporting will be part of the next review.</p>	<p>A study to assess revenue loss due to unacquitted cargo control documentation will be completed in September, 1979. Control features will be revised/implemented as required.</p> <p>A National Quality Assurance Program has been undertaken under which the impact of poor quality cargo and entry documentation can be analyzed and evaluated.</p>	<p>Carriers who have exhibited consistently poor documentation are being contacted in an attempt to have them improve documentation quality. The next cycle of the program is scheduled for late 1979.</p> <p>Ports which are operating under the automated system are now provided weekly with a computer generated report listing unacquitted documents.</p>

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF NATIONAL REVENUE - CUSTOMS AND EXCISE

<u>Recommendations</u>	<u>Auditor General's 1978 Report</u>	<u>Department's Comments</u>	<u>Department's Comments</u> As of August 31, 1979
18.70 The Department should provide better physical safeguards over open cargo control document files and provide that key documents be retained.		The departmental document control policy will be reviewed and strengthened where necessary. It is also agreed that an effective audit trail should be maintained.	The Security Services Manual which provides policy and procedures respecting physical security of files, buildings, etc., was issued in February, 1979. The Department will continue to stress the importance of physical safeguards of this type and retain key documents on file.
Accounts Receivable			
18.73 The Department should further improve internal control over Customs accounts receivable by ensuring that all forms of receivables are covered by its revised procedures and by providing appropriate training for operational staff outside of the accounts receivable units who are involved in the collection of receivables.		The Department agrees that its procedures will apply to all types of receivables and that appropriate training will be provided for operational staff involved in the collection of receivables.	To increase internal control a new system has been implemented nationally which covers the major portion of Customs receivables. In addition, the Department has developed a pilot project which will evaluate and test other types of receivables for inclusion in the national system.
Collection			
18.77 The Department should expand procedures and make them more explicit in the areas of segregation of duties, physical security of records and supervisory involvement in cashier functions; and ensure adherence to these procedures.		The Department is reviewing existing procedures governing segregation of duties, physical security of records and supervision involvement in cashier functions and will amend them where appropriate.	The Department has commenced appropriate training for employees outside the accounts receivable unit performing the collection activity by conducting regional clinics. Clinics have been held in four regions to date, with the remaining regions to be completed by the end of 1979.
			The Department has issued Standards covering the Control of Money. Formal procedures flowing from these standards will be incorporated in the Financial Management Manual by July 1980.

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF NATIONAL REVENUE - CUSTOMS AND EXCISE

<u>Recommendations</u>		<u>Auditor General's 1978 Report</u>	<u>Department's Comments</u>	<u>Department's Comments</u> As of August 31, 1979
18.78	The Department should enforce adherence to regulations, including those covering the receipt and deposit of public money.	Compliance with regulations is currently enforced by communicating the policies and procedures in manuals and bulletins, doing systems reviews, operating compliance check systems and internal and external audit reviews. The effectiveness of these processes will be reviewed.	Standards for the control of money have been issued. Reports noting non-compliance and/or deficiencies of systems are being reviewed and corrective action taken.	
Bonded Warehouses				
18.82	The Department should provide for better accounting records for goods stored in bonded warehouses, as well as greater security and more regular and effective follow-up of open files.	Agreed. A study is currently underway.	A full review of the economic role of bonded warehouses, their relationship to sufferance warehouses and their operational controls and administration will be completed in 1980. However, as an interim measure inspection guidelines and revised penalty structure were published in February, 1979.	
18.83	Inspections of bonded warehouses should stress the importance of verifying physical inventory and ensure that warehouse operators' and Customs' records agree.	Agreed.	Inspections of bonded warehouses do stress the verification of physical inventory. Agreement of warehouse operators' and Customs' records form an integral part of reconciliations conducted.	
18.84	Provision should be made for greater involvement of supervisory personnel in the inspection function and for improved reporting of inspection findings. Also the criteria used in determining which bonded warehouses to audit should be re-examined.	Agreed. This will be considered as part of the study mentioned in paragraph 18.82 above.	Supervisory personnel are now more directly involved in the inspection function and criteria used to determine which bonded warehouses should be audited are being re-examined as part of a full review of the economic role of bonded warehouses.	
Assessment				
18.90	The Department should analyse all cost-benefit implications before establishing value for duty limits below which entries will not receive regular review by the Commodity Specialist Unit.	Agreed.	Entry selection criteria will be tested in four regions from October to December, 1979 and revised criteria will be implemented in April, 1980.	

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF NATIONAL REVENUE - CUSTOMS AND EXCISE

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18.91 The Department should strengthen control of the assessment function by retaining key documents for an appropriate period of time, establishing better supervisory procedures and ensuring that training and staffing levels are commensurate with its needs.

Key entry documents are now being retained, however, the Department intends to issue national instructions indicating the specific entry documents to be retained at ports, immediately after national implementation of CEPACS. Furthermore, during 1979-82 the Department will develop work standards and performance indicators for the use of superintendents and other managers in exercising their monitoring responsibilities. Also a monthly operational report has been developed and implemented. This report gives the necessary means for management to make the appropriate staffing levels adjustments.

The Department will continue to review the assessment functions periodically and make such changes as are justified by cost-benefit analysis.

Drawbacks, Refunds and Remissions

18.96 The Department should amend its procedures to provide for adequate physical security over claims, improved supervision and reporting of refund activity, and improved claims file documentation. It should develop selection criteria and audit profiles that can be used in selecting and examining claimants.

The Department will continue to review claims procedures periodically and make such changes as are justified by cost-benefit analysis. The Department agrees to develop selection criteria and audit profiles taking into consideration the observations raised by the Auditor General.

The Department has re-examined supervision, document control and claim reporting. Improved procedures are being implemented on a national basis. Procedures for improved documentation and recording of poor performance by a claimant are also being introduced to the Drawback Procedures Manual.

18.97 The Department should make sure that its plan to re-examine present controls over accounting and reporting of remissions includes a complete evaluation of all internal controls relating to this function.

A computer program to retrieve remission information from the computer data bank (entry documentation) has been developed for improved reporting and control over remissions. The program will be tested during September, 1979. Procedures for improved control and reporting over all 1/60th remission type entries (temporary entry) have been developed and are planned for introduction on April 1, 1980.

Agreed.

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF NATIONAL REVENUE - CUSTOMS AND EXCISE

Recommendations	Auditor General's 1978 Report	Department's Comments As of August 31, 1979
Investigations		
<p>18.101 The Department should take action to strengthen control over the information referred to the Investigations Unit and the files the Unit maintains. It should also re-evaluate staffing and training requirements and investigation procedures. In addition, more effort is required to ascertain the potential for revenue collection in cases referred to the Unit for possible investigation.</p>	<p>The Department will continue to review its investigation policies and procedures and make such changes as are justified by cost-benefit analysis.</p>	<p>The Department has strengthened control over the information referred to the Investigations Unit and the files maintained by the Unit.</p> <p>A re-evaluation of staffing has resulted in an increase and reallocation of man-year resources among regions.</p> <p>A training profile has been completed and the overall training program has been developed by Customs and Excise College for a projected implementation date of January 1, 1980.</p>
<p>Statistical Determination of Assessment Revenue Gap</p>		
<p>18.109 The Department should undertake tests, based on statistical sampling techniques, to measure the effectiveness of the assessment function and should consider their use in the measurement of other functions.</p>	<p>It is agreed that effectiveness measurement systems must be strengthened for all functions including assessment.</p>	<p>Studies to identify performance indicators for the appraisal and tariff relief areas have been initiated and will be completed by March 31, 1980.</p>

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF NATIONAL REVENUE - CUSTOMS AND EXCISE

Recommendations	Auditor General's 1978 Report	Department's Comments As of August 31, 1979	Department's Comments As of August 31, 1979
<p>18.110 Criteria used to determine which import declarations should be subject to detailed review by the Department should be carefully examined to determine whether they meet the Department's need for the most cost-effective use of its staff resources.</p>	<p>The Department will continue to review these criteria periodically and make such changes as are justified by cost-benefit analysis.</p>	<p>A test period for trial entry selection criteria is scheduled for four regions from October to December, 1979 and revised criteria will be implemented in April, 1980.</p>	
<p>Computerized Cargo Entry Processing and Collection System (CEPACS)</p>			
<p>18.123 The Department should defer further implementation of the CEPACS system until cost-benefit analyses have been completed and the underlying issues and questions, raised in departmental reports evaluating CEPACS, have been fully answered.</p>	<p>Agreed. The Department has already taken this action.</p>	<p>The Department, after detailed review, analyses and evaluation of the CEPACS program, has decided to proceed with the national implementation of CEPACS.</p>	
<p>18.124 Where CEPACS is already installed, action should be taken to assess the impact of existing control deficiencies and to take appropriate remedial action.</p>	<p>Agreed. The Department will continue to improve the CEPACS system and to correct whatever deficiencies are identified.</p>	<p>All major recommendations for remedial action to overcome control deficiencies contained in the report have been implemented.</p>	
<p>Internal Audit</p>			
<p>18.133 The Department should place greater emphasis on:</p>	<p>Agreed. Emphasis will continue to be placed on these areas and refinements and/or adjustments in line with the intent of the recommendations will be made as necessary.</p>	<p>Internal Audit Branch has identified the constituent audit components and determined the nature of audits required.</p>	<p>Priorities and time frames to achieve audit objectives contained in the departmental audit policy have been incorporated into the Branch's long range and operating work plans.</p>
<ul style="list-style-type: none"> - clearly identifying the nature of audits required and their constituent components; 			
<ul style="list-style-type: none"> - establishing priorities and time frames to achieve the audit objectives contained in the departmental audit policy; 			

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF NATIONAL REVENUE - CUSTOMS AND EXCISE

<u>Recommendations</u> <u>Auditor General's 1978 Report</u>	<u>Department's Comments</u> <u>As of August 31, 1979</u>
<ul style="list-style-type: none"> - assessing staff skills against new and existing audit plans and necessary audit techniques and obtaining appropriate resources if required; and 	<p>An on-going study of personnel skills and necessary audit techniques required has been commenced. Appropriate resources will be obtained to match individual requirements of audit assignments.</p>
<ul style="list-style-type: none"> - adopting the most suitable audit techniques or refining existing ones. 	<p>The Department is continuing to utilize the best audit techniques or to refine existing techniques while maintaining cost effectiveness.</p>

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF TRANSPORT

Department's Comments
As of August 31, 1979

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Recommendations

Results of Financial Audit

- 19.26** The Department should expedite the completion of a comprehensive operating agreement establishing the terms and conditions under which the Canadian National Marine Corporation (CNMC) will operate the specified ferry services.
- Agreed. A Tri-partite agreement between CNMC, CNR and Transport Canada was approved by Governor in Council on May 9, 1979 which transferred Crown assets to capitalise CN Marine and to modify existing Entrustment Orders. Services are now being operated as specified in the various contracts.
- 19.29** Departmental procedures should be established to ensure that all translation requirements are referred to the Translation Bureau.
- Agreed. The Department will clarify with the Secretary of State the intent of the Translation Bureau Act with respect to the unique requirements for technical publications. This matter is also the subject of a current evaluation study which should resolve the problem.
- 19.32** The Department should take steps to ensure that payments for services not received are avoided in the future.
- Agreed. This contract did not have an on-hire/off-hire clause, but it could be included in all such charter agreements in the future. It is contended, however, that this will result in a substantially higher daily charter rate, particularly in circumstances similar to those of this contract, when the chartered vessel will be employed in evaluation programs of a developmental and experimental nature entailing a higher-than-usual operational risk.
- Agreed. Steps have been taken to ensure that payments for services not received are avoided in the future. Appropriate protective clauses are now incorporated in all charter agreements.
- 19.34** Significant monthly variances should be analysed and the reasons documented. This documentation should contain plans for corrective action where necessary and notification as to the need for or availability of funds.
- Agreed. As an integral part of monthly financial reporting, variance analysis and cash forecasting requirements are being examined. Refinements to existing procedures have been drafted and are presently under consideration. These re-emphasize the necessity for compliance by responsibility managers and follow-up by financial officers.

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF TRANSPORT

Recommendations	Auditor General's 1978 Report	Department's Comments	Department's Comments As of August 31, 1979
19.36	The Department should take steps to ensure that only authorized individuals are allowed to certify requests for payment and that all required approvals are obtained before payments.	Agreed. Steps have been taken to ensure that approvals of authorized individuals only are obtained before payments are made.	Agreed. Steps have been taken to ensure that approvals of authorized individuals only are obtained before payments are made.
Internal Audit			
19.47	The Financial Audit and Review Branch should report to an individual independent of the financial function, who reports directly to the Deputy Minister and is responsible for co-ordinating all internal audit functions.	Agreed.	Agreed. Since November 1, 1978 the Financial Audit and Review Branch reports to the Assistant Deputy Minister, Review, who is responsible for co-ordinating all internal audit functions and reports directly to the Deputy Minister.
19.49	The Branch should develop a multi-year audit plan based on a clearly defined audit universe and taking into account high-risk elements, expected staff resources, a rotation of coverage and an analysis of costs versus benefits. The audit plan should be reviewed and approved by the audit committee.	Agreed. Action is currently being taken to develop a long-range audit plan. When completed this plan will be presented for approval by the audit committee.	Agreed. The audit universe and a five year audit plan have been developed by the Financial Audit and Review Branch and will be presented to the Audit and Review Committee in November 1979. The related annual work schedule for 1979-80 was approved by the Audit and Review Committee on June 11, 1979. In addition, the financial audit plan is being co-ordinated with those of the other audit branches in order to minimize the burden on the auditees and improve the efficiency of audit.
19.51	The Branch should establish a firm timetable for completing the manual and should ensure that the manual is completed in accordance with this schedule.	Agreed. A firm timetable for completion of the audit manual by March 31, 1979 has been developed.	Agreed. A firm timetable for the completion of the audit manual by September 30, 1979 was presented to the Audit and Review Committee at its meeting of June 11, 1979. Ninety-five per cent of the manual has now been completed.
19.54	The Branch should develop and implement standards and procedures covering all aspects of working paper documentation including the scope adopted, work performed, conclusions reached and supervisory reviews completed.	Agreed. This is being undertaken as part of the development of the audit manual dealt with above.	Agreed. This has been completed as part of the development of the audit manual.

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF TRANSPORT

<u>Recommendations</u>	<u>Auditor General's 1978 Report</u>	<u>Department's Comments</u>	<u>Department's Comments As of August 31, 1979</u>
19.55	Before starting field work, detailed work programs should be prepared and approved. These programs should document the basis for selecting audit samples, the size of samples to be obtained and the method of selection.	Agreed. Work programs are now being prepared and approved prior to commencement of field work.	Agreed. Work programs are now being prepared and approved prior to commencement of field work.
19.62	The mandate for operations reviews should be adhered to or it should be revised in the light of the number of operational units, known time requirements per review and staff resources available.	Agreed. This is being addressed as part of the introduction of a comprehensive audit function within the Department.	Agreed. The mandate for operations review has been revised as part of the proposed introduction of a comprehensive audit function within the Department.
19.64	Each Operations Review Branch should report directly to an individual who reports directly to the Deputy Minister and is responsible for co-ordinating all internal audit functions.	Agreed. Operations Review reports are considered by the Audit Committee chaired by the Deputy Minister.	Agreed. The Operations Review Branches report to the Assistant Deputy Minister, Review who is responsible for co-ordinating all internal audit functions and reports directly to the Deputy Minister.
19.67	Methods of obtaining staff should be reviewed to develop a consistent policy on using seconded staff. This review should consider the benefits which seconded staff receive versus the audit efficiencies inherent in using full-time staff.	Agreed. Given the current man-year and dollar restraints, seconded personnel use under the direction of full-time operations review staff is the best available alternative to full-time staffing. This also provides a career development opportunity.	Agreed. Given the current man-year and dollar restraints, seconded personnel are used under the direction of full-time operations review staff. This is the best available alternative to full-time staffing and also provides a career development opportunity.
19.69	Standard procedures should be established for the performance of operations reviews. These procedures should include: <ul style="list-style-type: none"> - required work steps and documentation standards; - the extent of the evidence required as support for issued reports; and - a requirement to include the use of recommendations in reports. 	Agreed.	Agreed. A draft of the Departmental Operations Review Manual has been completed which include these procedures. It will be tabled at the Audit and Review Committee meeting in November 1979 for approval.

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF TRANSPORT

<u>Recommendations</u>		<u>Auditor General's 1978 Report</u>	<u>Department's Comments</u> As of August 31, 1979
19.74	The responsibilities for challenge of departmental plans and post-audit functions should be segregated.	Agreed. These two functions are performed in separate units under a single official who reports directly to the Deputy Minister.	Agreed. These two functions are performed in separate units under the Assistant Deputy Minister, Review who reports directly to the Deputy Minister and no conflict has resulted.
Planning and Acquisition of Capital Assets			
19.84	The Department should continue recent efforts to clearly define and communicate responsibility and accountability for capital projects.	The Department's initiatives in the last 2-3 years in the development of more comprehensive management processes have been aimed at providing a clearer perception of capital project responsibility and accountability.	Agreed. The Department's initiatives in the last 2-3 years in the development of more comprehensive management processes have been aimed at providing a clearer perception of capital project responsibility and accountability.
19.88	Capital proposals should be supported by accurate and complete documentation including: <ul style="list-style-type: none"> - a proper analysis of needs; - a clear statement of objectives and intended effects; - an impartial assessment of alternatives; - realistic capital cost estimates; and - an analysis of life-cycle costs. 	Agreed. A mandatory corporate programming process has been developed and has been in operation since 1976, providing for an independent review and analysis function to be exercised in regard to capital project proposals. This process includes the requirements listed.	Agreed. A mandatory corporate programming process has been developed and has been in operation since 1976, providing for an independent review and analysis function to be exercised in regard to capital project proposals. This process includes the requirements listed.
19.92	Final approval of all projects should be withheld until full information is available, including items such as detailed design, realistic cost estimates and rental commitments from major users.	Agreed. Treasury Board regulations require approvals in three stages: <ul style="list-style-type: none"> - approval in principle based on conceptual design and best information available at the time; - program approval based on detail design and specifications and corresponding more precise information; and 	Agreed. Treasury Board regulations require approvals in three stages: <ul style="list-style-type: none"> - approval in principle based on conceptual design and best information available at the time; - program approval based on detail design and specifications and corresponding more precise information; and

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF TRANSPORT

<u>Recommendations</u>	<u>Auditor General's 1978 Report</u>	<u>Department's Comments</u>	<u>Department's Comments As of August 31, 1979</u>
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- contract approval based on firm bids.

This practice is followed by the Department.

This practice is followed by the Department.

19.95 Project implementation should be properly controlled to ensure that facilities of an approved size and quality are completed on schedule and within the authorized budget.

A Transport Canada Project Management Policy has been in operation since 1976 and defines, in specific terms, mandatory requirements for project management and outlines a recommended approach to be followed to provide adequate control over funds and resources.

Agreed. A Transport Canada Project Management Policy has been in operation since 1976 and defines, in specific terms, mandatory requirements for project management and outlines a recommended approach to be followed to provide adequate control over funds and resources. Further steps are currently underway to vigorously monitor capital projects for improved cost controls.

19.97 The Department should ensure that all capital projects are reviewed to determine the extent to which project objectives were achieved, to evaluate the performance of managers and to improve the planning and control of similar projects in the future.

Agreed. Responsibilities and procedures for review are in place and are being practised in accordance with Transport Canada Project Management Policy of 1976.

Agreed. Responsibilities and procedures for review are in place and are being practised in accordance with Transport Canada Project Management Policy of 1976. More recently, this policy has been revised to emphasize specific recommendations made by the Auditor General. The new Treasury Board Policy directives on cost control and improved accountability for major capital projects have also been considered in this revision.

Control Over Fixed Assets

19.142 The Department should ensure that all locations comply with the specific requirements of the Supply Manual.

Agreed. Steps are being taken to this end.

Agreed. A Materiel Management Bulletin published on April 25, 1979, reminds management of its responsibilities to comply with the Supply Manual. Additional audits and follow-up action have been carried out to ensure compliance.

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF TRANSPORT

Recommendations	Auditor General's 1978 Report	<u>Department's Comments</u>	<u>Department's Comments</u> As of August 31, 1979
<p>19.143 A specific implementation plan and time schedule should be developed on a Department-wide basis to ensure that the Fixed Asset Accounting System-Transport system is properly integrated with the custodial records.</p>	<p>Agreed. We are now preparing a specific plan defining the method and time-frame in which various sub-systems will be integrated with the Fixed Assets Accounting System, and the records verified by physical inspection of the assets held.</p>	<p>Agreed. An implementation plan has been prepared which defines the method and time frame in which various sub-systems will be integrated with the Fixed Assets Accounting System, and the records verified by physical inspection of the assets held. It is anticipated that a major portion of identification and cataloguing of the fixed assets will be done by March 31, 1980.</p>	
<p>19.144 All existing fixed asset records should be verified, with the identification and cataloguing of land, buildings and wharves to be concluded as early as possible.</p>			
<p>19.145 Responsibility for co-ordinating and monitoring the fixed asset control system throughout the Department should be delegated to a specific Headquarters officer.</p>	<p>Responsibility for co-ordinating and monitoring the fixed asset control system throughout the Department has been assigned to the Director of Budgets and Financial Services.</p>	<p>Agreed. Responsibility for co-ordinating and monitoring the fixed asset control system throughout the Department has been assigned to the Director of Budgets and Financial Services.</p>	
Human Resource Management			
<p>19.156 The methodology and momentum developed by the Cost Reduction Task Force should be maintained by permanently incorporating this type of rigorous approach into either the Operations Review or the Programming activity.</p>	<p>Agreed. The Department decided early in 1978 that the Programming Branch would assume the responsibility for the 'A' base review function to continue the momentum developed by CRTF.</p>	<p>Agreed. The Department has developed the concept and schedule for A-Base Review to continue the momentum developed by CRTF. This new function is being conducted under the direction of the Assistant Deputy Minister, Review.</p>	
<p>19.159 All the internal manpower planning approaches now in use should be assessed for utility and one of them, or a further variation, should be adopted by each major organizational unit in the Department. This approach should be linked closely to the Department's strategic planning process.</p>	<p>Agreed.</p>	<p>Agreed. An overall process for human resources planning in Transport Canada is currently under development which will be linked to the strategic planning process. Progress will be reported at the end of the year.</p>	

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF TRANSPORT

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Recommendations

19.163 The Department should strengthen its individual goal setting process, relating it to departmental and program objectives.

19.164 The Department should design and implement the new employee performance appraisal system as soon as possible and base it upon clearly stated individual and group goals tied to objectives and the operational goals of the Department.

Agreed. This is an integral part of the development of the departmental performance review and appraisal procedures started a year ago. The Department has recently completed a major task begun in May 1977 involving the identification of strategic objectives, and the associated policies and strategies required to achieve these objectives. See also comment against 19.171.

19.167 A firm schedule should be adopted for final implementation of both personnel information systems, in order to obtain full value for money already invested in systems development.

Agreed. The issue is currently under active consideration.

19.169 The Department should provide stronger direction for its training programs by:

- training managers in the identification of training needs;
- improving guidelines on the identification of training needs; and
- reiterating line managers' responsibilities to identify training needs.

Agreed. Training of trainers to conduct this program is underway and incorporates guidelines on identification of training needs. Managerial responsibility in this area is being re-emphasized through this and several other training programs.

Agreed. The Department has strengthened its individual goal setting process, relating it to departmental and program objectives. This has been done through the performance review and appraisal procedures currently being tested in pilot runs across the Department and specifically throughout the SX community. This process should be fully implemented by June 1980. The design and implementation of the new employee appraisal system is tied in with the above process. See also comment 19.171.

Agreed. Both systems were primarily designed with limited capacity and cannot satisfy the growing requirements of the Department. An additional study was undertaken to rectify this weakness. A detailed proposal will be submitted to senior management in October 1979 for approval.

Agreed. Training of trainers to conduct this program is underway and incorporates guidelines on identification of training needs. Managerial responsibility in this area is being re-emphasized through this and several other training programs.

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF TRANSPORT

Recommendations	Auditor General's 1978 Report	Department's Comments	Department's Comments As of August 31, 1979
19.171	The Department should facilitate the assessment of the effectiveness of the training program by completing the implementation of the upgraded performance appraisal process referred to in the manpower/organization planning section.	Agreed. This project is proceeding with a high priority but will take at least 12 months to complete. See also comments against 19.163 and 19.164.	Agreed. The implementation of an upgraded performance appraisal process should be fully implemented by June 1980. See also comments 19.163 and 19.164.
19.173	The Training Institute should initiate an annual review of all courses purchased from external sources and a sample of internal ones. The review should focus upon achievement of course goals and an analysis of the cost-effectiveness of the course versus alternative teaching methods.	Agreed. The means and timetable for implementation of such a review are being developed.	Agreed. An inventory of all training and development programs has been completed and an evaluation scheme is in place on a pilot project basis. It is anticipated that a comprehensive review system will be implemented during the 1980-81 training year.
19.175	The schedule for disseminating the course on training evaluation should be accelerated and the procedures required to make the evaluation process operational should be implemented.	Agreed. This is being done consistent with the resources available and with appropriate scheduling of the training involved.	Agreed. A draft directive and procedures on training evaluation are being prepared and will be distributed throughout the Department in September 1979 with a formal directive to be promulgated by December 1979.
19.178	The cost of formal training and development activities, including the cost of trainees' time, salaries of trainers and course development costs, should be captured and reported in a uniform manner. Firm controls should be applied to ensure that all costs are captured and correctly identified.	Agreed. A system is being developed.	Agreed. A system is being developed jointly by the Finance and Personnel groups and should be operative in late 1979.
19.179	Actual training costs incurred should be compared periodically to budget, the variances analysed and an explanation required from each cost centre deviating significantly from plan.	Agreed. A system is being developed.	Agreed. The system developed in comment 19.178 will give the Department the facility to compare actual costs to budgeted expenses.
19.181	The Training Institute should adjust its method of projecting training man-days, both at Institute facilities and in the field, to take into account such factors as failure rates and drop-out due to conflicting time pressures within the Department.	Agreed. A statistical base is being developed to permit this.	Agreed. Completed.

1978 COMPREHENSIVE AUDIT RECOMMENDATIONS - DEPARTMENT OF TRANSPORT

<u>Recommendations</u>	<u>Auditor General's 1978 Report</u>	<u>Department's Comments</u>	<u>Department's Comments As of August 31, 1979</u>
19.182 The Department should re-examine the five-year training projections to ensure their reliability as a basis for future decisions relating to training staff levels and the further development of training facilities.		Agreed. Such re-examinations are a continuing process in the Department.	Agreed. Such re-examinations are a continuing process in the Department.
The Airports Revolving Fund			
19.192 All costs related to the operations of the airports within the Airports Revolving Fund should be charged to the Fund in accordance with Treasury Board Circular 1970-7.		Agreed. A proposal to the Treasury Board to revise the Airports Revolving Fund to provide for the allocation of the costs of air traffic control and telecommunications and electronics services related to the provision of airport terminal control is now being prepared. Subject to approval of this proposal, such costs will be allocated to the Fund commencing with the 1979-80 fiscal year.	Agreed. The Airports Revolving Fund has now been revised by authority of the Treasury Board and the costs of all services related to the provision of airport terminal control are now charged to the Fund.
National Harbours Board			
19.205 The Board should implement procedures which ensure the timely processing of submissions for Governor in Council approval.		Agreed. Systems within the Department are in existence. In this particular instance, unique circumstances occurred which largely were beyond the control of the Board.	Agreed. Systems within the Board are in existence.

APPENDIX F
REPORTS OF THE COMPTROLLER GENERAL
TO THE STANDING COMMITTEE ON
PUBLIC ACCOUNTS, NOVEMBER 14, 1979



November 14, 1979.

Mr. Donald Johnston,
Chairman of the Standing Committee
on Public Accounts,
Room 436 C,
Centre Block,
House of Commons,
Ottawa, Ontario.
K1A 0A6

Dear Mr. Johnston:

The purpose of this letter is to advise you of the current status of matters raised in the 1976 and 1977 Reports of the Auditor General for which corrective action has not previously been reported by the Treasury Board Secretariat or my Office. These reports have been provided to your Committee in order to facilitate its work.

With regard to the 1976 Report of the Auditor General, my Report to Mr. R. Huntington of July 11, 1978 identified 5 paragraphs where it was not possible to report corrective action. The current status of these matters is summarized in Appendix I. Three of these have been the subject of further review by the Auditor General and were dealt with in his 1978 Report. They have therefore been effectively brought forward for further consideration and resolution.

With regard to the 1977 Report of the Auditor General, my Report to Mr. Huntington of June 30, 1978 listed 16 paragraphs for which corrective action could not be ascertained at that time. Appendix II summarizes the current status of these matters. With the exception of paragraphs 10.21, 11.5-11.11 and 15.17 I believe that the actions planned or taken to date effectively resolve the matters. The outstanding matters will be the subject of ongoing review and possible further reporting by the Auditor General.

I trust that this information will be useful to you and your Committee.

Yours sincerely,

H.G. Rogers

Attachments

APPENDIX I

1976 REPORT OF THE AUDITOR GENERAL
STATUS OF OUTSTANDING MATTERS AS AT
SEPTEMBER 30, 1979

<u>Paragraph Number and Problem</u>	<u>Status of Action Taken and/or Being Taken</u>
<p>9.6 <u>Public Works</u></p> <p>The Auditor General is seeking better display in the Estimates and in the Public Accounts of the cost of accommodation services. He also recommends that Treasury Board examine a cost charge-back system.</p>	<p>This matter was dealt with extensively in Chapter 7 of the 1978 Report of the Auditor General and by the Standing Senate Committee on National Finance. Action is underway with regard to those more detailed recommendations including a pilot project to implement revenue dependency.</p>
<p>13.12 <u>External Affairs</u></p> <p>The vote wording results in the failure to obtain specific Parliamentary assent for payments made for Canada's membership in international organizations in excess of those estimated.</p>	<p>This issue remains unresolved. Neither the department nor the Treasury Board Secretariat agree that more effective control would be achieved by a change in the basis of parliamentary approval.</p>
<p>16.11 <u>Company of Young Canadians</u></p> <p>The Auditor General is of the opinion that authorization to make severance payments to volunteer members of the CYC was not permitted by CYC Act.</p>	<p>At the time of making the payments, legal opinions were obtained indicating that the authority existed. There is no intention to effect recovery. The Auditor General has agreed that no further action is practical.</p>
<p>18.5 <u>Environment</u></p> <p>The Auditor General noted that the department was paying land rental under a long-term lease for property that was not being occupied and has been declared in excess of Crown requirements.</p>	<p>The issue was repeated in the 1978 Report of the Auditor General and was discussed extensively by the Public Accounts Committee. Public Works is monitoring possible utilization of the property.</p>
<p>19.6 <u>National Revenue-Taxation</u></p> <p>The Auditor General is requesting action on the Public Accounts Committee's recommendation contained in its second report dated March 6, 1975:</p> <p>"...consideration be given to changing the confidentiality provision (of the Income Tax Act) to require the publication of the names of all taxpayers whose accounts are written off."</p>	<p>This issue is repeated in the 1978 Report of the Auditor General and was considered by an inter-departmental committee in 1976 without resolution because of problems of "sovereignty", economics and administration.</p>

APPENDIX II

1977 REPORT OF THE AUDITOR GENERAL
STATUS OF OUTSTANDING MATTERS AS AT
SEPTEMBER 30, 1979

Paragraph Number and Problem

Status of Action Taken and/or Being Taken

10.21 Treasury Board Secretariat
Use of Statistical Data

There is a significant use of statistical data in expenditure applications for which the data have not been designed and the appropriateness of the data for these secondary uses has not been evaluated.

No further action is being contemplated by Treasury Board. Since the observation was made, improvements have been made in the use of improved statistics by Unemployment Insurance. Other departments involved review data available from Statistics Canada in order to use the statistics which will provide the most accurate results.

11.5-11.11 Travel and Relocation Expenses
in Crown Corporations

The Auditor General concluded that corporate policies in this area were inadequate and generally not comparable to those established by the Treasury Board for public servants.

Legislation currently being drafted will clarify the extent of central direction to Crown corporations and will identify the roles and responsibilities of central agencies with regard to Crown corporations.

11.19 Supply and Services
Central Travel Service
Billing systems and procedures

Present procedures create substantial problems of financial control for both Central Travel Service and customer departments and agencies.

New control mechanisms have been implemented to rectify the problem identified.

12.13 Energy, Mines and Resources
Disclosure in the Estimates and
Public Accounts

1. Certain approved transfers of allotments within the same Vote were not recorded in the Public Accounts.
2. Grants to research institutes are not always disclosed separately in the Estimates and Public Accounts.

The current study of the form of Volume II of the Public Accounts in conjunction with revisions to the form of the Estimates will provide a means to resolve this issue.

Such grants are now disclosed separately in the Estimates and Public Accounts. This was fully discussed by the Public Accounts Committee in June 1978.

<u>Paragraph Number and Problem</u>	<u>Status of Action Taken and/or Being Taken</u>
<p>12.14 <u>Energy, Mines and Resources</u> <u>Grant to one Research Institute</u></p> <p>Grant payments were made even though established conditions were not adhered to.</p>	<p>As discussed before the Public Accounts Committee in June, 1978 the department has subsequently ensured that established conditions were adhered to.</p>
<p>14.4 <u>Treasury Board Secretariat</u> <u>Loans likely to require parlia-</u> <u>mentary appropriation for write-</u> <u>off</u></p> <p>Certain loans do not represent assets of the Government of Canada. These loans are:</p> <ol style="list-style-type: none"> 1. \$384 million to Canadian Broadcasting Corporation, National Capital Commission, Northwest Territories and Yukon Territory. 2. \$215 million to a number of least developed countries. 	<p>An allowance for these loans is provided in the 1978-79 Public Accounts and Parliamentary approval will be sought to delete them in 1979-80.</p> <p>Approval for deletion of these loans was obtained through 1977-78 supplementary estimates.</p>
<p>14.9 <u>Treasury Board Secretariat</u> <u>Valuation of Pension Accounts</u></p> <p>The financial statements of the Government of Canada do not reflect any deficiency resulting from actuarial valuations of the Canada Pension Plan or the Supplementary Retirement Benefits Account.</p>	<p>The deficiency is now disclosed in a note to the financial statements of the Government of Canada.</p>
<p>15.17 <u>Supply and Services</u> <u>Supply Revolving Fund - Revenue</u> <u>not Recorded</u></p> <p>The Auditor General observed that the period in which revenues are recognized does not necessarily correspond to the period in which costs are charged. Included in the deferred revenue of \$14.8 million were undetermined amounts that should have been recognized as revenue in the year.</p>	<p>A review carried out by the department indicated that the cost of a more precise determination of deferred revenue was not justified. The findings of the IMPAC review indicated that a short-term major systems change was not cost-beneficial and that the present consistent approach provided a reasonable basis of disclosure for decision-making and evaluation. The principle of matching revenues and expenses is important and, as changes occur, procedures will be reviewed with the purpose of attaining more accuracy at a reasonable cost.</p>

Paragraph Number and Problem

Status of Action Taken and/or Being Taken

15.19 Treasury Board Secretariat
Failure to Accrue Employee
Termination Benefits

The Auditor General has qualified his reports on the financial statements of a number of Crown corporations and revolving funds because of their failure to accrue the liability for employee termination benefits.

The Crown corporations referred to, have revised their policies and now accrue this liability. The elimination of separate disclosure of revolving funds effectively eliminates this problem.

16.5 Regional Economic Expansion
Payment Improperly Charged to a
1976-77 Appropriation

The Auditor General notes that an advance of \$1.5 million on an approved loan of \$20 million, paid on April 14, 1977 and charged to a 1976-77 appropriation, did not meet the requirements of Section 30 of the Financial Administration Act.

Although a technical violation did occur it had no effect on budgetary expenditures or the reported deficit. Therefore no action is required.

16.8 Regional Economic Expansion
Improper Payment Under an Incentive
Agreement

The Department made a final payment of \$1.3 million under an incentive agreement with a company even though an essential condition of the agreement had not been met because the Department of the Environment could not provide the required certification relating to pollution control.

Although a condition of the agreement had not been met all parties acted in good faith to achieve the overall objectives. Efforts to meet pollution abatement requirements are ongoing.



November 14, 1979.

Mr. Donald Johnston,
Chairman of the Standing
Committee on Public Accounts,
Room 436 C,
Centre Block,
House of Commons,
Ottawa, Ontario.
K1A 0A6

Dear Mr. Johnston:

The purpose of this letter is to advise you of the current status of actions taken with regard to the government-wide issues raised in the 1978 Report of the Auditor General.

These issues were addressed in a letter from the President of the Treasury Board to the Auditor General dated October 13, 1978 which was published with the 1978 Auditor General's Report. My Report to you is therefore an update on the initiatives outlined in that letter. Certain of these were also discussed with the committee earlier this year.

I have forwarded a copy of this letter and the attached Appendix to the Auditor General and have requested his confirmation that the issues and recommendations/conclusions have been summarized adequately. He has so confirmed.

I trust that this information will be useful to you and your Committee.

Yours sincerely,

H.G. Rogers.

Attach.

1978 REPORT OF THE AUDITOR GENERAL

PRECIS OF ISSUES, RECOMMENDATIONS/CONCLUSIONS, AND CURRENT STATUS - GOVERNMENT-WIDE ISSUES

PARAGRAPHS	ISSUE	RECOMMENDATION/CONCLUSION	CURRENT STATUS
CHAPTER 3	SPICE - CAPITAL ACQUISITIONS - ECONOMY		
3.12 to 3.27 incl.	<p>Shortcomings in the process of acquisition of capital assets indicate that resources of an appropriate quality were not acquired at a minimum cost. Lack of clear definition of responsibility and accountability result in inadequate attention being given to key elements of project planning and implementation. The needs for and benefits to be derived from projects were not always clearly demonstrated and their objectives were sometimes poorly stated. Project management has been inadequate resulting in substantial cost overruns in real dollar terms. Original project estimates were unreliable and forecast life-cycle costs were inadequately examined. Completed projects were not always subjected to post-completion reviews as a means of providing information for future similar projects.</p>	<p>The Auditor General concluded, based on the 13 SPICE audits then completed, that the capital acquisition process did not come up to a reasonable standard of "due regard for economy". In his opinion, the process suffered from a series of shortcomings which in total indicated that resources of appropriate quality were not being acquired at minimum cost. His findings were not uniform across all projects examined.</p> <p>The Auditor General recommended that Departments and Agencies implement the new Treasury Board Policy and Guidelines on the Management of Major Crown Projects and adopt the additional procedures necessary to ensure that for all capital projects:</p> <ul style="list-style-type: none"> - responsibility and accountability are clearly defined; - requests for funds are supported by accurate and complete documentation; - final approval is based on full information; - project implementation is properly controlled; - completed projects are reviewed. <p>He also recommended that there should be an independent review within the sponsoring department of all major project proposals to ensure that requests for funds are supported by accurate and complete documentation before their submission for approval by the Treasury Board.</p>	<p>1. The policy and guidelines issued in 1978 on the management of major Crown projects are being implemented by departments and agencies.</p> <p>2. Following the Treasury Board approval of those policy and guidelines, the Treasury Board Secretariat has completed two follow-up activities: a simplified version of the policy and guidelines, as a working guide for departments, to be used generally for smaller projects and, a process for the provision and remuneration of qualified project leaders for major Crown projects (to be issued shortly).</p> <p>3. Furthermore, directives on cost control have recently been issued, based on the Treasury Board Ministers' requirement for increased control over the expenditures of public funds in the implementation of Crown projects.</p>

1978 REPORT OF THE AUDITOR GENERAL

PRECIS OF ISSUES, RECOMMENDATIONS/CONCLUSIONS, AND CURRENT STATUS - GOVERNMENT-WIDE ISSUES

PARAGRAPHS	ISSUE	RECOMMENDATION/CONCLUSION	CURRENT STATUS
CHAPTER 4	SPICE - MEASURING AND INCREASING EFFICIENCY		
4.19 to 4.26 incl.	Performance measurement data generated in the departments reviewed has been generally limited in its use to justifying existing or increased resource levels. Where performance measurement systems are in place, they are not used by managers who hence lack commitment to them. Performance measurement systems suffer from inconsistencies in methods of measuring, standards used, and management reporting. The data are often inaccurate and the indicators of performance misleading. In most departments reviewed, the standards used were based on past performance rather than on the results of in-depth analysis. In the few instances in which sufficient data were available to estimate labour efficiency, it was found to be below an acceptable level.	Treasury Board Secretariat has provided leadership in defining the issues surrounding performance measurement and has demonstrated the importance it attaches to this basic management responsibility. Nonetheless, of 16 performance measurement systems reviewed in 12 departments, only two were considered satisfactory. Most performance measurement systems reviewed did not play an important part in the management process and did not satisfy the information needs of operating managers. In most of the operations reviewed, management did not know their level of efficiency or how it might be increased. In most labour-intensive operations, effort to increase productivity was insufficient.	Treasury Board circular 1976-25 directed that: <ul style="list-style-type: none">- departments subject to review by the Treasury Board shall measure the performance of their operations on an ongoing basis;- departments shall begin to support their program requirements with performance measures by no later than the Program Forecast for the FY 1977-78;- by 1980 all departments and agencies shall use performance measurement, where feasible, for internal management and resource allocation purposes. Progress toward the 1980 goal shall be monitored.
	In labour-intensive, process-type departments management is not making adequate use of proven productivity improvement techniques.	The Auditor General has recommended that performance measurement systems be put in place to control operations, aid in program planning and to support resource requests. Managers of labour-intensive operations should make greater use of productivity improvement techniques.	Treasury Board has published a two-volume manual on program performance measurement, a booklet entitled "A Manager's Guide to Performance Measurement", and three reports to Parliament on the current use of performance measurement in departments and agencies. Personnel from the Office of the Comptroller General also participate in the training of some 1,500 managers and specialists annually in program performance measurement through more than 60 Public Service Commission courses.

continued...

1978 REPORT OF THE AUDITOR GENERAL

PRECIS OF ISSUES, RECOMMENDATIONS/CONCLUSIONS, AND CURRENT STATUS - GOVERNMENT-WIDE ISSUES

PARAGRAPHS	ISSUE	RECOMMENDATION/CONCLUSION	CURRENT STATUS
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In 1978, the Office of the Comptroller General initiated a major survey of current management practices called Improvement in Management Practices and Controls (IMPAC). The first phase of IMPAC involved 21 major departments and agencies and will be completed in 1979. The second phase of IMPAC will survey 11 more departments and agencies and will be completed in 1980. The principal focus of IMPAC is upon the functions of planning, budgeting, controlling, evaluating and auditing.

The Comptroller General reports the findings of each review directly to the deputy minister or heads of the agency concerned, who is asked to prepare action plans to correct deficiencies. These action plans are monitored by the personnel of the Office of the Comptroller General to ensure progress towards better management practices and controls. The action plans provide a basis for improving the information available to management to assist them in improving the operation of their programs.

1978 REPORT OF THE AUDITOR GENERAL

PRECIS OF ISSUES, RECOMMENDATIONS/CONCLUSIONS, AND CURRENT STATUS — GOVERNMENT-WIDE ISSUES

PARAGRAPHS	ISSUE	RECOMMENDATION/CONCLUSION	CURRENT STATUS
	SPICE — EVALUATING EFFECTIVENESS		
CHAPTER 5			
5.7 to 5.26	Up to now, departmental accomplishments in effectiveness evaluations have fallen short of expectations because of insufficient effort, lack of adequate quality of work and deficiencies in the reporting and use of results. For the most part, program objectives are stated in only general terms and possible measurable outcomes have not been identified. Where steps had been taken to measure program effectiveness, the measurements often exhibited serious shortcomings.	<p>The Auditor General concluded, based on a review of 23 programs in 18 departments, that there had been few successful attempts to evaluate the effectiveness of programs in the Government of Canada and that the scope and quality of effectiveness evaluation would have to be increased significantly before management, the Government and Parliament can be reasonably informed on the achievements of public programs.</p> <p>The Auditor General recommended that information on program effectiveness be forwarded to decision makers in a manner and frequency consistent with their responsibilities. Further, departments and agencies should clearly specify program objectives and effects, identify evaluable outcomes and measure these as precisely as possible. Finally, effectiveness evaluations should reflect the state of the art and be cost-justified.</p>	<p>The SPICE review covered only the components of 23 programs in 18 departments, <u>not</u> the entire programs.</p> <p>In 1977, Treasury Board issued a policy statement (TB 1977-47) clarifying the responsibility of deputy ministers and heads of agencies to develop and implement appropriate procedures to measure and report upon the efficiency and effectiveness with which government programs were achieving their objectives.</p> <p>Guidelines on Program Evaluation have been prepared by the Office of the Comptroller General, after wide consultation, and will be published shortly. In addition to elaborating on the implementation of the policy, these guidelines also cover the communication, distribution and review of evaluation reports.</p> <p>Treasury Board Policy 1977-47, while primarily directed towards the evaluation of existing programs, also includes direction on the evaluation requirements of new programs.</p> <p>One of the principal tasks of the IMPAC Survey, described under Chapter 4 of this Precis, is to assess the provisions made for the implementation of the Treasury Board's Policy on Program Evaluation. The IMPAC questions are aimed at determining the degree to which the program evaluation plans of departments are implemented; how</p>

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1978 REPORT OF THE AUDITOR GENERAL

PRECIS OF ISSUES, RECOMMENDATIONS/CONCLUSIONS, AND CURRENT STATUS - GOVERNMENT-WIDE ISSUES

PARAGRAPHS

RECOMMENDATION/CONCLUSION

ISSUE

CURRENT STATUS

the appropriate reporting and distribution of the findings are achieved; and the extent to which processes have been established to ensure that these findings are analyzed and used in both the short and long term.

Departments and agencies are asked to prepare action plans to correct any deficiencies revealed by the IMPAC study. Corrective actions range from the development of evaluation units to the staffing, resourcing and surveying of programs to be evaluated.

In parallel with the IMPAC Survey, the Office of the Comptroller General has taken a further initiative in the area of program evaluation through the creation of a special Evaluability Assessment Task Force. Its purpose is to assist departments and agencies in identifying programs and program components for evaluation, followed by the development of specific departmental evaluation plans.

To date, work has been initiated with 20 departments and agencies. Approximately 12 of these have developed initial five-year evaluation plans and of these 12, eight have received senior management approval. The majority of these organizations have completed the identification of program components for evaluation. By November 30, 1979, 16 departments and agencies will have completed their

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1978 REPORT OF THE AUDITOR GENERAL

PRECIS OF ISSUES, RECOMMENDATIONS/CONCLUSIONS, AND CURRENT STATUS - GOVERNMENT-WIDE ISSUES

PARAGRAPHS	ISSUE	RECOMMENDATION/CONCLUSION	CURRENT STATUS
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evaluation plans. Over the next 12 months, work is continuing through both the IMPAC Study and Evaluability Assessment Task Force for a further 11 departments and agencies. By January 1980, approximately 150 evaluation studies are expected to have been started.

In addition, the Office of the Comptroller General is preparing a skills development course for managers of program evaluation units and senior evaluators. The aim of the course is to improve the understanding and application of the Treasury Board's policy on program evaluation by focussing on those responsible for the function in departments and agencies.

1978 REPORT OF THE AUDITOR GENERAL
PRECIS OF ISSUES, RECOMMENDATIONS/CONCLUSIONS, AND CURRENT STATUS - GOVERNMENT-WIDE ISSUES

PARAGRAPHS	ISSUE	RECOMMENDATION/CONCLUSION	CURRENT STATUS
Chapter 6 6.1 to 6.112	Improving the Financial Information Parliament Receives	<p>The essential issue identified is the need for improved accountability. The Auditor General believes this demands more effective monitoring of government departments and agencies and would involve:</p> <ul style="list-style-type: none"> - greater disclosure to Parliament by departments of their plans; - greater emphasis on the reliability of information in the Estimates and comparable information in the Public Accounts; - identification by the Comptroller General of the information to be provided in both the Estimates and Public Accounts; and - greater clarity concerning the nature of expenditures that appropriations are intended to cover. <p>To achieve these improvements, the Auditor General identifies a number of changes to the form and content of the Estimates which might be adopted and he also suggests an approach which the Comptroller General might wish to take to improve the quality and availability of Estimates information.</p>	<p>Responsibility for determining the form of the Estimates was transferred from the Treasury Board Secretariat to the Office of the Comptroller General on August 17, 1979.</p> <p>A priority of the Office will be the review and revision of the form and content of the Estimates.</p>

1978 REPORT OF THE AUDITOR GENERAL

PRECIS OF ISSUES, RECOMMENDATIONS/CONCLUSIONS, AND CURRENT STATUS - GOVERNMENT-WIDE ISSUES

PARAGRAPHS	ISSUE	RECOMMENDATION/CONCLUSION	CURRENT STATUS
CHAPTER 7	CHARGING FOR ACCOMMODATION SERVICES		
7.1 to 7.64	<p>The essential issue is the need for improved accountability on the part of both those who provide and those who use accommodation services. For this to exist, there must be greater disclosure to Parliament of:</p> <ul style="list-style-type: none"> - the cost of buildings constructed, bought or leased to provide accommodation; - the cost of space occupied in carrying out government programs; and - the efficiency and effectiveness of Public Works as the central agency responsible for acquiring and providing accommodation services. 	<p>The Auditor General proposed that Public Works charge user departments for accommodation services through:</p> <ul style="list-style-type: none"> - a Building Operations Revolving Fund; - an Accommodation Management and Professional Services Revolving Fund; and - continue to finance new accommodation through annual parliamentary appropriations. 	<p>The Treasury Board Secretariat, in cooperation with Public Works, is presently drafting a plan for consideration by the Cabinet regarding the management of the Accommodation Program of the Department of Public Works on a revenue dependent basis.</p>

1978 REPORT OF THE AUDITOR GENERAL

PRECIS OF ISSUES, RECOMMENDATIONS/CONCLUSIONS, AND CURRENT STATUS - GOVERNMENT-WIDE ISSUES

PARAGRAPHS	ISSUE	RECOMMENDATION/CONCLUSION	CURRENT STATUS
CHAPTER 8	DEPARTMENTAL COMPTROLLERS		
8.1 to 8.19	Outline of Departmental Comptroller Concept		
	In this part, the Auditor General summarizes the key aspects of recommendations made in previous Reports concerning the professional qualifications, responsibilities, relationships and role of senior departmental financial officers, clarifies and expands on the intent of these earlier recommendations and comments on overall progress. He comments that while there has been some progress, the implementation of the changes required for the effective functioning of Departmental Comptrollers has been slower than what would be desirable.		A paper is being prepared by the Office of the Comptroller General on the Departmental Comptroller concept. This paper describes the role of a departmental comptroller and sets out a basis for discussion of the concept with Deputy Ministers.
	The Auditor General also notes that no guidance has yet been forthcoming on the functional relationship between senior departmental financial officers and the Financial Administration Branch of the Office of the Comptroller General.		The Comptroller General through his IMPAC survey is reviewing the "Management of the Financial Function" in departments. This survey includes the evaluation of the role and responsibilities of the senior financial officer.
8.20 to 8.23	Organization Concerns Requiring Further Study		
	A number of issues concerning the role of senior departmental financial officers in areas requiring interaction with program managers needs further study before specific recommendations can be made on how they should be dealt with in individual departments.		The functional relationship between the senior departmental financial officers and the Financial Administration Branch of the Office of the Comptroller General is continually being strengthened through guidance and advice provided by the Branch and through the sponsorship of Interdepartmental Advisory Committees on financial systems, internal financial audit and financial administration development.

1978 REPORT OF THE AUDITOR GENERAL

PRECIS OF ISSUES, RECOMMENDATIONS/CONCLUSIONS, AND CURRENT STATUS - GOVERNMENT-WIDE ISSUES

PARAGRAPHS	ISSUE	RECOMMENDATION/CONCLUSION	CURRENT STATUS
CONTRACTING PROCEDURES			
CHAPTER 9			
9.1 to 9.13	Weaknesses in Departmental contracting procedures were identified including inadequate documentation of the justification for non-competitive procurements, inadequate cost control provisions in fixed-time rate and cost-plus contracts, and lack of sufficient information to, and delayed approval by, Treasury Board.	Departmental contracting procedures should require explanation of the basis for contractor selection and cost control provisions should be integrated with the payment terms for fixed-time rate and cost-plus contracts. Treasury Board should be made aware of significant contract terms and conditions. Where required, contracts should be approved by Treasury Board before work begins.	Appendix E, Chapter 310, of the Administrative Policy Manual requires documentation of the method of selection in both Departmental and Treasury Board Contract Submissions and defines other minimum information requirements for Treasury Board Submissions. Cost control and retroactive approvals have been addressed by Circular Letter 1979-20. Directives on Cost Control were issued July 27, 1979.
9.14 to 9.21	There were significant deficiencies in some departmental systems for delegating and documenting signing authorities, certification of the availability of funds, and certification for payment and spending.	Departmental financial manuals should include procedures to be followed in documenting both the delegation and exercise of signing authorities, procedures to record and control contract commitments, and procedures for spending and payment authorities to ensure that payments are made in accordance with contract terms and conditions and after evidence that account verification procedures have been thoroughly applied.	The Office of the Comptroller General is taking steps to ensure the adequacy of procedures and the development of plans for corrective action.

1978 REPORT OF THE AUDITOR GENERAL

PRECIS OF ISSUES, RECOMMENDATIONS/CONCLUSIONS, AND CURRENT STATUS - GOVERNMENT-WIDE ISSUES

PARAGRAPHS	ISSUE	RECOMMENDATION/CONCLUSION	CURRENT STATUS
CHAPTER 12	COMPREHENSIVE INTERNAL AUDITING WITHIN GOVERNMENT - A RECOMMENDED APPROACH		
	Three major issues are discussed:		
	1. Many departments have several groups involved in uncoordinated audit activities;	1. The government will receive adequate value for the approximately \$50 million departments and agencies now spend annually on audit activities only if the improvements are made in the following areas:	1. The Office of the Comptroller General has carried out a survey in the largest 21 departments of government on management practices and control, including internal audit functions. The survey is being extended to the 11 next largest departments.
	2. None of the 35 departments and agencies satisfied all of the seven criteria established to evaluate the internal audit functions. The main needs were:	<ul style="list-style-type: none"> - integration of the wide variety of audit, review, inspection, monitoring and evaluation activities now taking place. - adherence to generally accepted standards or norms for effective audits; and - management support and leadership both centrally and within departments. 	The survey indicates that most of the major departments have or are in the process of establishing a single integrated internal audit function. Where the survey disclosed that a department does not have an integrated internal audit function it will be required to establish plans to consolidate the audit responsibility into a single unit in the future.
	3. With a few notable exceptions, there has been a lack of management support and leadership at the departmental level and central agency support to date for internal audit has been sporadic and often divisive.		2. The Treasury Board issued standards for internal financial audit which established criteria for effective audits. The surveys of the internal audit functions in departments reviewed adherence to the Treasury Board standard which had been broadened for purposes of the survey to incorporate the requirements for comprehensive audit.

continued...

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PRECIS OF ISSUES, RECOMMENDATIONS/CONCLUSIONS, AND CURRENT STATUS - GOVERNMENT-WIDE ISSUES

PARAGRAPHS	ISSUE	RECOMMENDATION/CONCLUSION	CURRENT STATUS
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The Office of the Comptroller General is developing standards for comprehensive audit and will continue to monitor adherence to the established criteria.

3. The survey of internal audit and the resulting action plans will forge a commitment from the Deputy Heads and the Comptroller General to improve internal audit as appropriate. For the past two years the Office of the Comptroller General has taken a strong leadership role.

It has taken the following steps:

- 1) the issue of standards for internal financial audit;
- 2) the development of a training course for internal auditors; and
- 3) the establishment of an inter-departmental committee committed to improve internal auditing in the government through sharing information.

This effort will be intensified in the future.



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